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Foreword

Over the years, the BRICS have transformed into dynamic participants in the global order, constituting 41 percent of the world's population, 24 percent of global GDP and 16 percent of world trade. The BRICS countries have forged strong ties with each other through various initiatives in multiple sectors, setting a strong precedent for socio-economic collaboration.

The Contingent Reserve Arrangement (CRA), one of the flagship initiatives of the BRICS, was established as a cross-regional financial arrangement to meet short-term liquidity needs of the BRICS members. As a part of the global financial safety net (GFSN), the BRICS CRA has a key role to play during times of uncertainty and crisis. With a view to improving the operational readiness of the CRA, the BRICS central banks have been conducting CRA test runs since 2018 by involving alternative scenarios. This year, BRICS central banks have achieved a new milestone by initiating collaboration with the International Monetary Fund (IMF) for the first time under the CRA.

As the BRICS countries continue with efforts to develop the CRA as an effective part of the GFSN, it is necessary to supplement it with research and analysis under the aegis of the CRA Research Group. The Group has developed a System of Exchange of Macroeconomic Information (SEMI) to track sixty indicators covering real, fiscal and external sectors, monetary and capital markets, and financial soundness. Annual and quarterly data pertaining to these indicators, along with Quarterly Economic Notes (QEN), are circulated on a quarterly basis. The activities of this group received an impetus with the publication of the maiden BRICS Economic Bulletin under Russia's Chair in 2020 (http://www.cbr.ru/s/2575). The BRICS QEN, SEMI and the Bulletin have contributed to macroeconomic assessment capacity building among the BRICS countries by flagging major risks and vulnerabilities in member economies.

A noteworthy feature of the 2021 research agenda is a deep dive into the external sectors of the BRICS economies. Hence, the first BRICS Collaborative Study has been conducted on the topic *'COVID-19: Headwinds and Tailwinds for Balance of Payments of BRICS'*. The study highlights the diverse developments impacting the current account and the evolving impact on capital flows across the BRICS countries. The recovery from the pandemic provides a unique opportunity to steer countries onto a path of inclusive and sustainable development.

We present the second edition of the BRICS Economic Bulletin 2021 on the theme '*Navigating the Ongoing Pandemic: The BRICS Experience of Resilience and Recovery'*. The COVID-19 health crisis has, in turn, led to a global economic crisis, threatening to exacerbate vulnerabilities in the form of income inequality and poverty. It has had a severe effect on the BRICS countries as well, with India, Brazil and Russia in the top five countries in the world in terms of infections. Barring China, all the BRICS countries recorded contraction in economic growth in 2020. The BRICS countries have started showing signs of recovery in H2: 2020 from the deep contraction in H1: 2020 as corroborated by various economic indicators. Prompt and proactive policy support from fiscal and monetary authorities has helped to accelerate the pace of this recovery. The ongoing vaccination programmes across the world has provided a much brighter outlook for 2021, *albeit* with considerable concerns about the unevenness in availability of vaccines in the emerging market economies (EMEs) and low-income countries. The threat of new waves of infection and more dangerous variants are also clouding the outlook. The BRICS Economic Bulletin 2021 assesses the strength and weakness of the BRICS economies against this backdrop.

I congratulate the members of the CRA Research Group and the researchers of the BRICS Collaborative Study, who remained committed to the Bulletin and to high standards of quality and analytical rigour, amidst challenging times and tight deadlines. I look forward to intensifying and expanding our research collaboration in the coming years.

Michael D. Patra
Deputy Governor
Reserve Bank of India
August 2021

BRICS Economic Bulletin

Chapter 1: Introduction

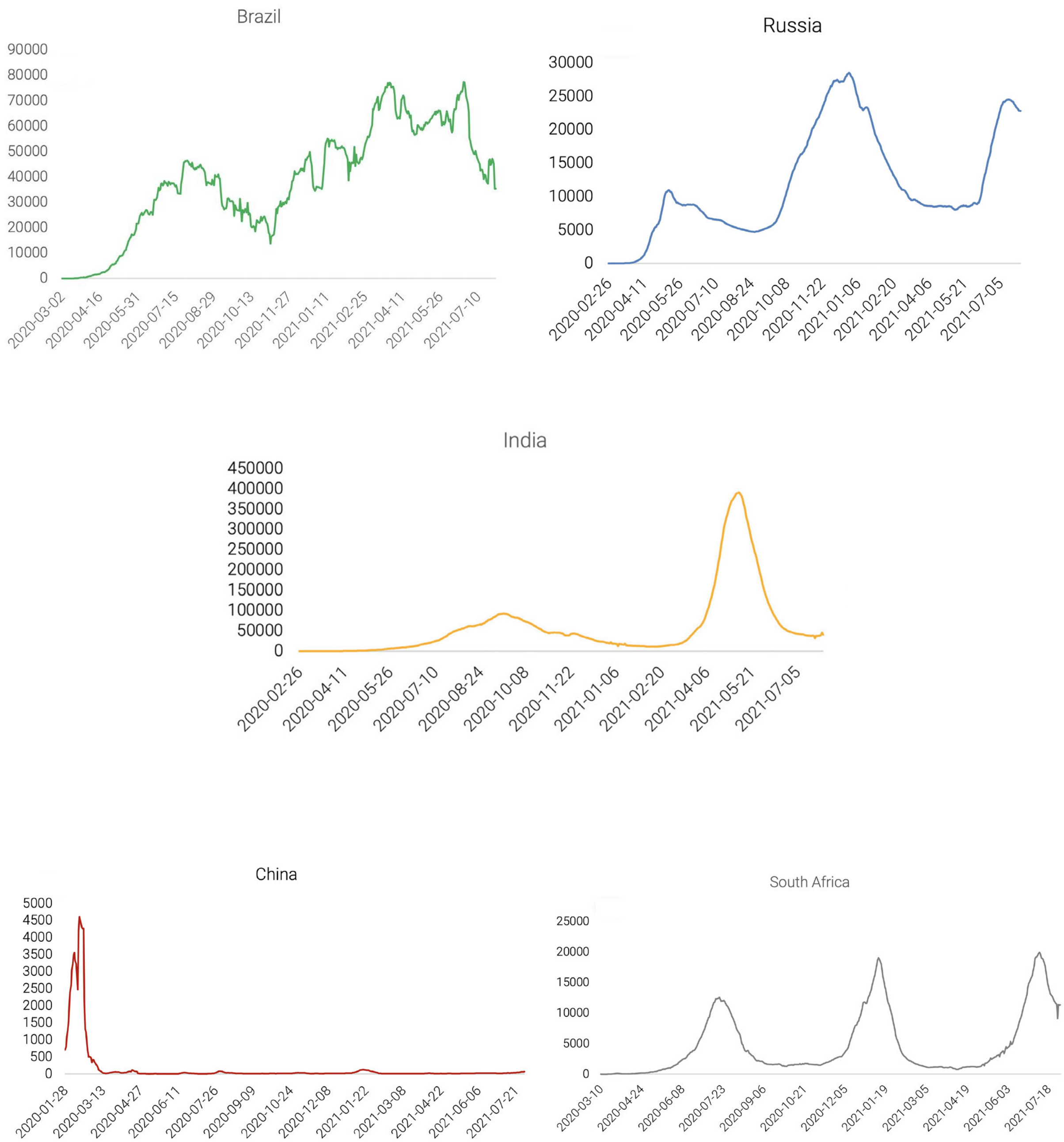
The originator of the acronym 'BRICS' in 2001, Jim O'Neill, recently[1] revisited the grouping for analysing the performance of the BRICS countries over the last two decades. While observing that the BRICS countries have witnessed diverging fortunes in the last decade in terms of economic growth, he commented that the performance of emerging countries, including the BRICS, would be the most decisive factor in determining the global economic growth for the next decade. The combined size of the BRICS economies is now larger than that of the European Union and are approaching the size of the United States. This reinforces the position of the BRICS economies in the current global economic landscape. At this juncture, the prospect for the BRICS as a group is contingent upon the pace of economic recovery from the COVID-19 pandemic and response to the structural changes induced by the pandemic. The current crisis, unlike the Global Financial Crisis (GFC) of 2008-09, has not just harmed the global economy but has also exposed the fragilities of social fabric, amplifying the issues related to unemployment, poverty, gender disparity and migration trends. The World Economic Outlook (WEO) April 2021, which projected an improved global growth outlook, warns of adverse employment and earnings impact on certain groups, especially in low-income and developing countries. The WEO July 2021 update has cautioned the diverging economic prospects across countries.

I. COVID-19 Pandemic in the BRICS

All the BRICS countries have been hit hard by the COVID-19 pandemic. There is a significant heterogeneity among the BRICS countries in the duration and intensity of the pandemic, waves of infection and vaccination drive. While China could largely contain the spread of the infection, India witnessed a more lethal second wave in 2021. Brazil is in the declining phase of its second wave. Russia and South Africa were experiencing some degree of moderation in the third wave of infection as at end-July 2021 (Figure 1).

1. *https://www.imf.org/external/pubs/ft/fandd/2021/06/jim-oneill-revisits-brics-emerging-markets.htm*

Figure 1: COVID-19 Waves of Infection in the BRICS Countries



Source: Our World in Data; Data as on July 31, 2021.

While India and Brazil have the highest cumulative number of infections and deaths, Russia and South Africa have a high number of infections and deaths in terms of cases per million population. China has the lowest number of cumulative and per million cases and deaths (Table 1).

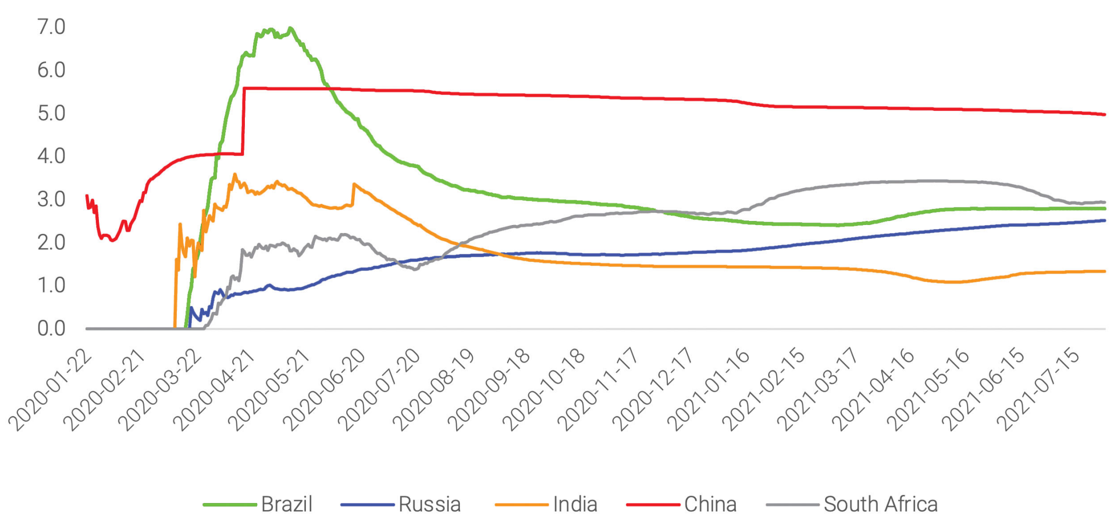
Table 1: COVID-19 Cases and Deaths amongst the BRICS Countries

	Cumulative number of COVID-19 cases	Cumulative number of COVID-19 deaths	Total case per million	Total deaths per million
Brazil	19,917,855	556,370	93,705	2,617
Russia	6,185,249	155,952	42,384	1,069
India	31,655,824	424,351	22,939	308
China	93,066	4,636	65	3
South Africa	2,447,454	72,013	41,266	1,214

Source: Our World in Data; Data as on July 31, 2021.

The fatality rate — the percentage of number of deaths against the total number of cases — has peaked in H1: 2020 in case of China, Brazil and India. However, for Russia and South Africa, the fatality rate has shown an upward trend (Figure 2).

Figure 2: COVID-19 Fatality Rate in BRICS countries



Source: Our World in Data; Data till July 31, 2021.

Development of multiple vaccines by end of 2020 and early 2021 imparted great hope for containing the pandemic and bringing life back to normalcy. It is really commendable that the scientific community in the BRICS countries could develop vaccines at the same pace as the vaccines being developed by the advanced economies (AEs). The Sputnik V vaccine of Russia, Covaxin of India and BBIBP-Cor V (Sinopharm vaccine) of China are examples in this regard.

Lack of infrastructure and production capacity, large populations, shortage of inputs and financial constraints are the major challenges faced by the BRICS countries which has led to a lower pace of vaccination in comparison to AEs. While a few of the BRICS countries have a greater access to domestically produced vaccines, others have to rely entirely on imported vaccines. Prioritisation of sectors for vaccination, accessibility and affordability are other major challenges. All these have led to disparity in vaccination across and within the BRICS countries. Brazil (19 percent), Russia (17 percent) and China[2] (16 percent) are leading in terms of percentage of population fully vaccinated, followed by India (7 percent) and South Africa (5 percent) as at the end of July 2021 (Table 2).

Table 2: COVID-19 Vaccination in the BRICS Countries

	Vaccines Approved for use	Number of persons vaccinated with at least one dose	Number of persons vaccinated with at least one dose (percent of total population)	Fully vaccinated	Fully vaccinated (percent of total population)
Brazil	Vaxzevria Comirnaty Covishield CoronaVac Janssen	103,500,926	48.69	40,546,320	19.08
Russia	EpiVacCorona Sputnik V CoviVac Sputnik Lite	36,024,370	24.69	24,061,918	16.49
India	Covaxin Covishield Sputnik V Ad26.COV2.S Moderna (mRNA-1273)	356,140,739	25.81	99,893,015	7.24
China*	Recombinant BBIBP-CorV Ad5-nCOV Comirnaty CoronaVac Inactivated-SARS-CoV-2	622,000,000	43.21	223,299,000	15.51
South Africa	Ad26.COV 2.5 Janssen	5,921,627	9.98	2,835,930	4.78

Source: Our World in Data; Data as on July 29, 2021.

*Data as on June 10, 2021.

2. China's 16 percent is as on June 10, 2021. Until the end of July 2021, China employed 1.6374 billion doses of vaccines. However, the break up of persons fully vaccinated and persons who have one dose is not available.

II. COVID-19 and the BRICS Economies

The health crisis of COVID-19 turned into an economic crisis and resulted in one of the deepest recessions experienced in many decades. The April 2021 WEO estimated that about 95 million people have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections. The International Labour Organisation, while studying the impact of COVID-19 on labour markets for 2020, estimated an 8.8 percent decline in working hours, 8.3 percent decline in global labour income and employment losses to the tune of 81 million. The lockdown imposed by several countries has resulted in considerable job losses in informal sectors and an exodus of migrant workers. The medium and long-term impact of the coronavirus is still unfolding as the pandemic continues to rage globally. To draw a comparison with the Spanish Flu of 1918-1920, Barro *et.al*, 2020[3], studied the macroeconomic impact of the Flu and estimated that it resulted in a 6 percent decline in real GDP per capita and 8 percent decline in real consumption. Since the COVID-19 pandemic is still not behind us, it is difficult to estimate the total economic losses due to COVID-19.

It was a challenging task to frame appropriate policies which are calibrated to the stage of the pandemic, emerging economic situation, and socio-economic circumstances of individual countries. Countries responded to the pandemic with aggressive fiscal and monetary policy support measures with a view to alleviating the adverse impact of the pandemic on the lives and livelihoods of the people. The IMF WEO April 2021 observed that unprecedented economic policy actions have prevented far worse outcomes with an estimation that the collapse could have been about at least three times as large had it not been for the swift policy support worldwide. The BRICS countries, like others, have also been proactive in providing policy support with a view to shielding against the adverse economic impact of the COVID-19 pandemic and accelerating the economic recovery post-COVID. In this process, the BRICS countries have used both conventional and unconventional measures[4] (Box 1).

While the first half of 2020 was a tale of lockdown and stringent containment, the second half of 2020 was more about opening up. While the first half of 2020 was a story of contraction, the second half of 2020 witnessed economic variables touching the pre-pandemic levels. Green shoots of economic activity have become visible; the leading indicators suggest a faster recovery; many

3. Barro, Robert J, Jos´e F Urs´ua, and Joanna Weng. 2020. "The coronavirus and the great influenza pandemic: Lessons from the "spanish flu" for the coronavirus's potential effects on mortality and economic activity." National Bureau of Economic Research

4. A snapshot of the major policy responses by BRICS countries till end September 2020 was given in BRICS Economic Bulletin 2020.

countries have come out of negative growth and the balance of payments (BoP) variables have started behaving in a pre-pandemic manner in the second half of 2020. So, the preliminary evidence during this period was pointing to resilience and recovery of economies in H2: 2020. However, subsequent surges in infections in the form of multiple waves and with multiple variants having greater transmissibility and lethality, raises questions about the pace, path and robustness of the recovery, going ahead.

While there are expectations of a stronger recovery in the second half of 2021 and 2022 for most of the BRICS countries, multiple issues remain to be resolved. The pertinent questions relate to divergences in the speed of recovery both across and within countries and the potential for persistent economic and structural changes arising from the crisis. While many economic indicators indicate a recovery, how robust would this recovery be? What other factors would shape the trajectory of the recovery? What structural changes would the current crisis lead to? Obviously, these are difficult questions to answer at this juncture. However, we will be able to provide some indicative answers to these questions by focusing on the behavior of economic variables, responses to the policy support, evidence of recovery and future risks and challenges.

Against the above backdrop, the BRICS Bulletin 2021, prepared by the CRA Research Group, would focus on the '*BRICS Experience of Resilience and Recovery'*. The 2020 BRICS Economic Bulletin compared the economic situation during COVID-19 pandemic (H1: 2020) with the pre-pandemic period and covered policy support and potential future areas of cooperation. While this year's Bulletin will provide a continuity to the narrative set in last year's Bulletin, it would primarily explore the evidence of resilience and recovery after H1: 2020. This assessment would reveal the strength and weakness of the BRICS economies in the short to medium term, indicating the reforms needed to strengthen post-pandemic growth impulses.

A BRICS collaborative study has been undertaken by a group of researchers from the BRICS central banks for the first time in 2021. The study has focused on the dynamics of balance of payments (BoP) in the BRICS during the COVID-19 period. It has made an assessment of the impact of COVID-19 crisis on balance of payments in the BRICS economies and the dominant channel of transmission *vis-à-vis* previous crises.

Chapter 2: The BRICS Experience of Resilience and Recovery

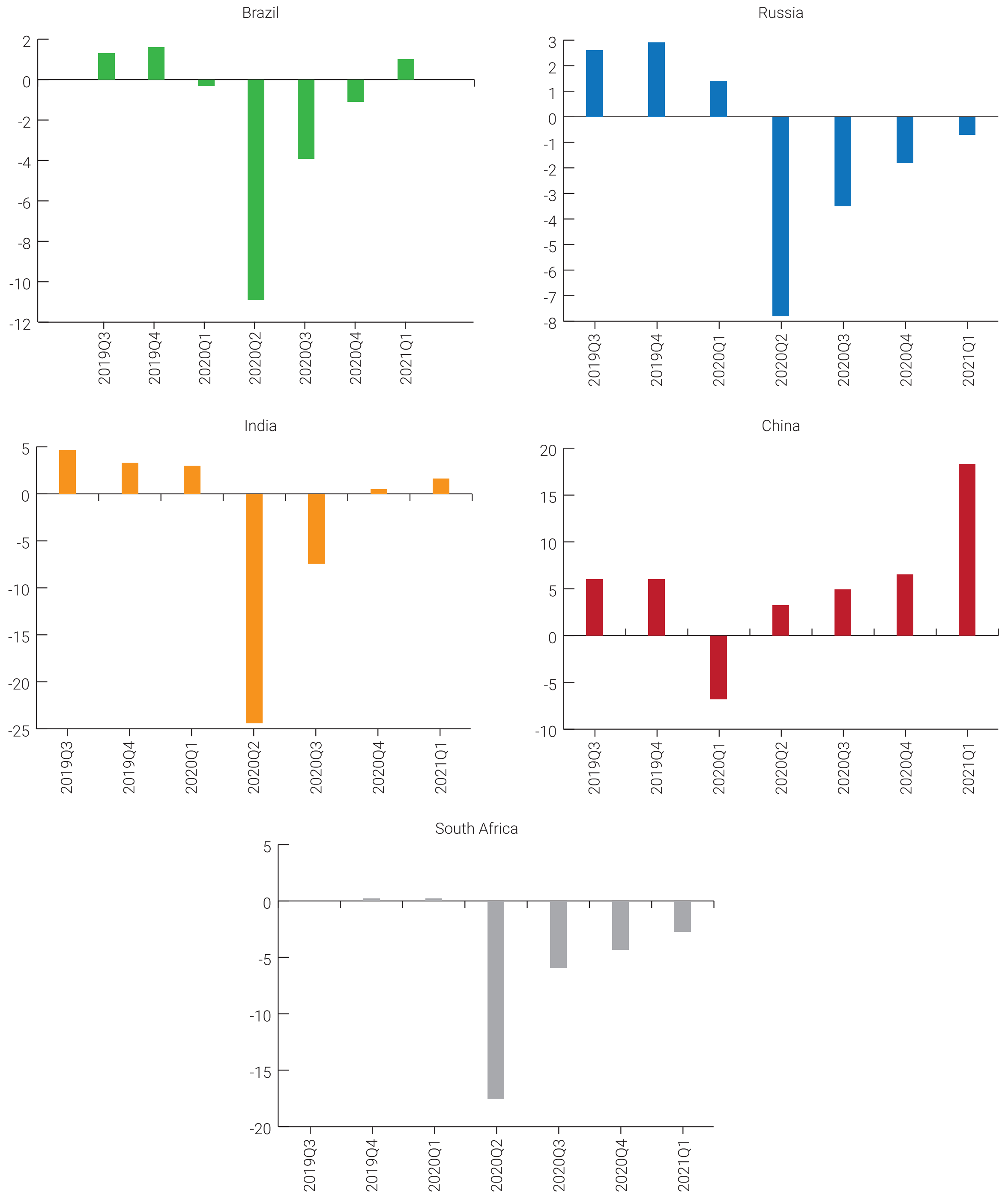
The pace and robustness of recovery from COVID-19 pandemic would depend on the fundamentals of the economy, speed of response to the crisis, resilience of various sectors of the economy and the direction and magnitude of the policy support. However, since the current crisis is a health crisis turned into an economic crisis, economic recovery is strongly contingent upon the duration and intensity of the pandemic and how effectively the COVID-19 is contained. So, the pace and efficacy of vaccination is going to be the most important determinant of economic recovery.

This Chapter presents the trend of resilience and recovery among the BRICS countries by focussing on the major aspects of each economy, such as the real sector, inflation, the external sector, the fiscal and the financial sectors. An attempt will be made to find evidence of resilience, path of recovery and factors determining the trajectory of recovery. An indicative assessment by comparing the movement of major macroeconomic indicators of the BRICS countries will be done. To further test the pace of recovery, the performance of the BRICS countries will be compared with other EMEs and AEs, wherever necessary.

I. Growth: A Tale of Divergent Recovery

The COVID-19 pandemic has led to serious economic contractions in all the BRICS countries (Figure 3). The largest contraction for all the BRICS economies, except China, was seen during Q2: 2020; for China it was in Q1: 2020 (-6.8 percent). The growth contraction in Q2 was highest for India (-24.4 percent), followed by South Africa (-17.5 percent), Brazil (-10.9 percent), and Russia (-7.8 percent). The economic recovery from this deep contraction has witnessed diverging trends among the BRICS countries. While China has rebounded to positive growth in Q2: 2020 from the contraction in Q1: 2020, the path to positive growth was longer for India and Brazil, with India rebounding to positive growth in Q4: 2020 and Brazil in Q1: 2021.

Figure 3: Quarterly GDP Growth Rates



Sources: CEIC, CRA Research Group.

Thus, reflecting the above trends, during 2020, India, South Africa, Brazil and Russia recorded a contraction of 7.3 percent, 6.4 percent, 4.1 percent and 3.0 percent, respectively. Bucking this trend, China recorded an economic growth of 2.3 percent in 2020 despite all the daunting challenges of a global pandemic.

A comparison of recovery of the BRICS with other prominent EMEs and AEs reveals that China and Turkey recorded the strongest recovery, with growth returning to the pre-pandemic level within a quarter. Other EMEs like Indonesia, Mexico and Argentina are languishing as they are unable to come out of the contraction even in 2021. Among the AEs, while the US returned to positive growth in Q1: 2021, Japan and Germany continue in the negative growth territory (Table 3).

Table 3: The Comparison of Quarterly GDP Growth Trends in Select Economies

Countries	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	Consistent Negative Growth Since COVID-19 Outbreak	Number of Quarters to Return to Positive Growth
									BRICS
Brazil	1.3	1.6	-0.3	-10.9	-3.9	-1.1	1.0		3
Russia	2.6	2.9	1.4	-7.8	-3.5	-1.8	-0.7	*	
India	4.6	3.3	3.0	-24.4	-7.4	0.5	1.6		2
China	6.0	6.0	-6.8	3.2	4.9	6.5	18.3		1
South Africa	0	0.1	0.1	-17.5	-5.9	-4.2	-3.2	*	
									Other EMEs in G 20
Turkey	1.0	6.4	4.5	-10.3	6.3	5.9	7.0		1
Indonesia	5.0	5.0	3.0	-5.3	-3.5	-2.2	-0.7	*	
Mexico	0.0	-0.8	-2.2	-18.6	-8.5	-4.5	-2.9	*	
Argentina	-0.4	-0.5	-4.9	-19.9	-10.1	-4.7		*	
									Advanced Countries
USA	2.1	2.3	0.3	-9.0	-2.8	-2.4	0.4		3
Japan	1.3	-1.0	-2.1	-10.3	-5.8	-1.3	-1.5	*	
Germany	1.4	0.9	-1.9	-11.3	-3.7	-2.9	-3.2	*	

Source: CEIC, CRA Research Group.

China's growth recovery is based on strong fundamental performance and is the top-most amongst all the G-20 peers. It is also noteworthy that China, though the first to be affected by the pandemic, has been able to control it effectively since Q2: 2020 which has aided its economic performance. The gradual pick-up in India and Brazil and visibly slower growth in Russia and South Africa clearly suggest that there is a significant divergence in the recovery pattern amongst the BRICS countries. The role of pandemic control may have been instrumental in this regard.

The agriculture sector has emerged as the bright spot in all the BRICS countries with positive growth rate in 2020. The Brazilian agriculture and livestock sector accelerated its growth to 2.0 percent in 2020, from 0.6 percent in 2019, driven by record high soybean and coffee harvests. Russia demonstrated a growth of 0.2 percent for agriculture in 2020 and the grain harvest of Russia increased by 10 percent in 2020 to 133.5 million tonnes, moving closer to the record harvest of 135.4 million tonnes achieved in 2017. In India, agriculture recorded a growth of 3.6 percent during 2020-21, mainly on account of the decision to keep the farm sector outside the ambit of lockdown, resulting in undisrupted sowing and harvesting cycles in India. The total foodgrain production of India is estimated at a record 305.4 million tonnes, compared with 297.5 million tonnes achieved during 2019-20. Agriculture in China, while recording a moderate contraction in Q1: 2020, returned to positive growth in Q2: 2020. In 2020, farm output of China grew by 3.1 percent – just 0.1 percentage point lower than that of 2019. In South Africa, the farm sector recorded steady growth in all four quarters of 2020, accelerating by 13.4 percent in 2020, from a contraction of 6.3 percent in 2019. Prospects of the South African agricultural sector remain optimistic for 2021.

A comparison of performance of industrial sectors based on the respective Index of Industrial Production (IIPs) reveals that all the BRICS countries witnessed severe contraction in the industrial sector as reflected in the staggering negative growth during the peak lockdown phase of April-June 2020. Subsequently, Brazil, India and China recorded higher average growth in July 2020-March 2021, in comparison to the corresponding period of the preceding year. However, industrial growth rate in Russia and South Africa were lower in July 2020-March 2021, as against the period of July 2019-March 2020 (Table 4).

Table 4: Index of Industrial Production (Y-o-Y Growth Rate) (Percent)

Countries	Average Growth Rate		
	July 2019 - March 2020	April 2020 - June 2020	July 2020 - March 2021
Brazil	-1.1	-19.4	2.3
Russia	3.3	-6.7	-2.5
India	-1.8	-35.7	0.9
China	5.5	-9.0	11.3
South Africa	-2.9	-31.3	-3.1

Source: CEIC.
Note: For China, the average growth calculated for period July 2019-December 2019, January 2020-March 2020 and April 2020-March 2021.

During the peak lockdown period, the PMI Composite index fell sharply to 7.2 for India, 13.9 for Russia, 26.5 for Brazil, 27.5 for China and 32.5 for South Africa, reflecting deep contraction in manufacturing and service activities. The economic activity, however, rebounded to expansion as reflected by the movement of PMI Composite index since Q3: 2020. While China has recorded expansion in economic activity in 11 out of 12 months since April 2020, India recorded expansion in 7 out of 9 months since July 2020. Russia, South Africa and Brazil have also recorded recovery in economic activity with PMI composite value touching more than 50 in several months in the July 2020-March 2021 period. (Table 5).

Table 5: Economic Activities based on PMI Composite

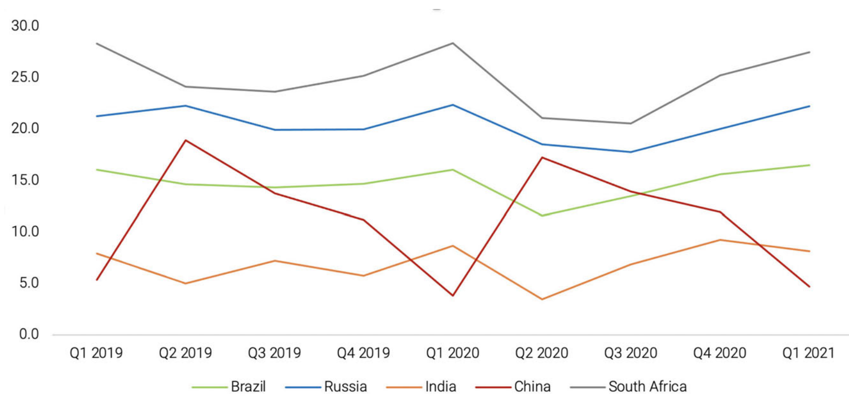
Countries	No of months (July 2019-March 2020)		No of months (April 2020-June 2020)		No of months (July 2020-March 2021)	
	Expansion	Contraction	Expansion	Contraction	Expansion	Contraction
Brazil	8/9 Max: 52.5	1/9 Min: 37.6	0/3 ----	3/3 Min: 26.5	5/9 Max: 55.9	4/9 Min: 45.1
Russia	8/9 Max: 53.3	1/9 Min: 39.5	0/3 ----	3/3 Min: 13.9	6/9 Max: 57.3	3/9 Min: 47.1
India	7/9 Max: 57.6	2/9 Min: 49.6	0/3 ----	3/3 Min: 7.2	7/9 Max: 58.0	2/9 Min: 37.2
China*	6/6 Max: 53.2	0/6 ----	1/3 Max: 51.9	2/3 Min: 27.5	11/12 Max: 57.5	1/12 Min: 47.6
South Africa	0/9 ----	9/9 Min: 44.5	0/3 ----	3/3 Min: 32.5	6/9 Max: 51.0	3/9 Min: 44.9

Source: CEIC and CRA Research Group.

*For China, calculation for period July 2019-December 2019, January 2020-March 2020 and April 2020-March 2021.

Tax revenue collection is a key indicator of economic activity. The Organisation for Economic Co-operation and Development (OECD) had projected that the COVID-19 crisis would significantly hit tax revenues in 2020, particularly from consumption taxes, due to the sharp fall in economic activity and consumption following lockdowns and the forced closure of many businesses. Various relaxations and concessions provided on the taxation front during COVID-19 would also affect tax revenue. Tax revenue as a percent of nominal GDP fell for all the BRICS countries in Q2: 2020 (for China in Q1: 2020) as against Q2: 2019. However, this fall was not sustained for long and the BRICS countries witnessed improvement in their tax revenue/GDP ratios since Q3: 2020. In Q4: 2020, tax revenue/GDP ratios of BRICS countries have been better than the corresponding quarter of the previous year. Similar signs of improvement are visible for Q1: 2021 (Figure 4).

Figure 4: Tax Revenue: Percent of Nominal GDP



Source: CEIC.

While several economic indicators including, *inter alia*, PMI and tax revenue/ GDP ratio indicate recovery from the COVID-19 induced lockdown and other restrictions, various downside risks such as, resurgence in infections, mutant variants of the virus, progress on vaccination and the effectiveness and adequacy of economic policy measures could play a crucial role in determining the robustness and sustainability of this recovery. For instance, the second wave of infection in India since March 2021 has led to regional lockdowns, stringent restrictions and halting of activity in many sectors which could affect the pace of its recovery. Similarly, Russia and South Africa have entered into a third wave of infection, posing threats to their economic recovery. China has also suffered a recent flare-up of COVID-19, since the initial outbreak, leading to restrictions on activity. However, the local transmissions appear to be in a waning mode.

To determine the robustness of recovery, it is important to track the growth estimates of institutions like the IMF, the World Bank and the OECD for 2021 and 2022, as they factor in emerging situations in their forecasts. The IMF in its April 2021 WEO forecast a higher growth for all the BRICS countries in 2021 from its earlier forecast in its October 2020 and January 2021 (Table 6). This indicates a robust recovery for all the BRICS countries. However, the IMF's July 2021 WEO Update sharply reduced the growth estimate for India by 3 percentage points from its April 2021 forecast due to the second wave of infections in 2021 and there was a marginal dip in the projected growth rate of China. The IMF's July 2021 WEO Update has, however, revised up the growth rates of Brazil, Russia and South Africa from its April 2021 forecast.

Table 6: Gross Domestic Product Growth Estimate (percent)

Country/Years	Oct-2020 WEO		Jan-2021 WEO		Apr-2021 WEO		July 2021 WEO	
	2021	2022	2021	2022	2021	2022	2021	2022
Brazil	2.8	2.3	3.6	2.6	3.7	2.6	5.3	1.9
Russia	2.8	2.3	3.0	3.9	3.8	3.8	4.4	3.1
India	8.8	8.0	11.5	6.8	12.5	6.9	9.5	8.5
China	8.2	5.8	8.1	5.6	8.4	5.6	8.1	5.7
South Africa	3.0	1.5	2.8	1.4	3.1	2.0	4.0	2.2

Source: International Monetary Fund, World Economic Outlook Database.

The OECD, in its Economic Outlook released in May, has revised up the 2021 growth forecast of China, Russia and South Africa and maintained the growth forecast for Brazil. The growth forecast of India has, however, been sharply reduced to 9.9 percent from its earlier forecast of 12.6 percent in view of the restrictions imposed to contain the second wave of infections. However, in its June 2021 Global Economic Prospects, the World Bank has revised upwards the growth forecast of all the BRICS countries from its earlier forecast in January 2021 (Table 7).

Table 7: Gross Domestic Product Growth Estimate (percent)

	OECD		World Bank	
	Mar 2021	May 2021	Jan 2021	Jun 2021
Brazil	3.7	3.7	3.0	4.5
Russia	2.7	3.5	2.6	3.2
India	12.6	9.9	5.4	8.3
China	7.8	8.5	7.9	8.5
South Africa	3.0	3.8	3.3	3.5

Sources: OECD and World Bank.

II. Inflation: Contained Well, But Risks Looming on the Horizon

Headline inflation has been largely contained in the BRICS since the outbreak of the pandemic even though it was a cause for worry for some of them (Table 8). Inflation shot up in India during June-November 2020 and moved beyond 6 percent, which is the upper limit of the inflation target, due to supply disruptions and inflation emanating from food items. While inflation stayed within the 6 percent limit from December 2020 to April 2021, it breached the limit again in May-June 2021 before moving back to 5.59 percent in July. The Wholesale Price Inflation has also inched up in the last few months in India in response to the rise in global commodity prices. While Russia's inflation rate was benign for the major part of 2020, it started to accelerate closer towards the end of the year and has continued accelerating in 2021 so far, exceeding its target limit (Figure 5).

Figure 5: Headline Inflation Trends of the BRICS countries

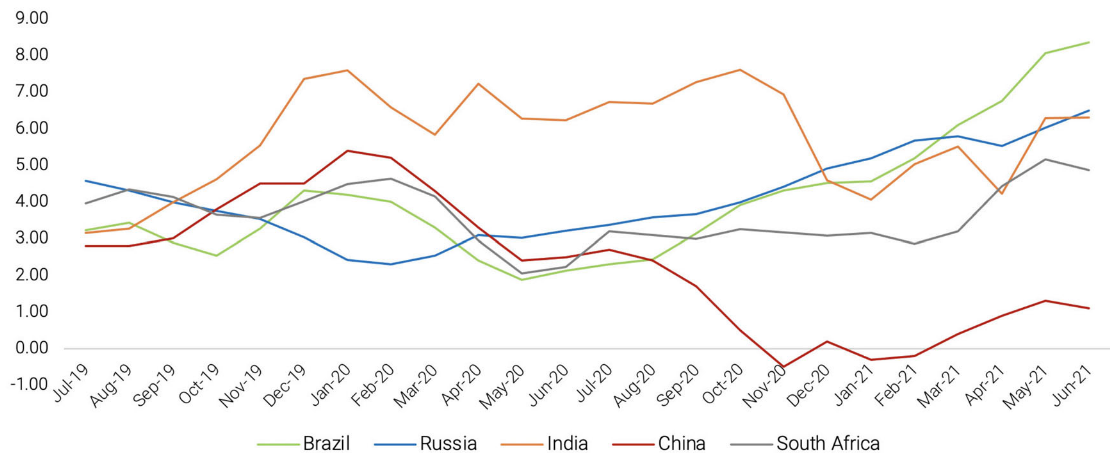


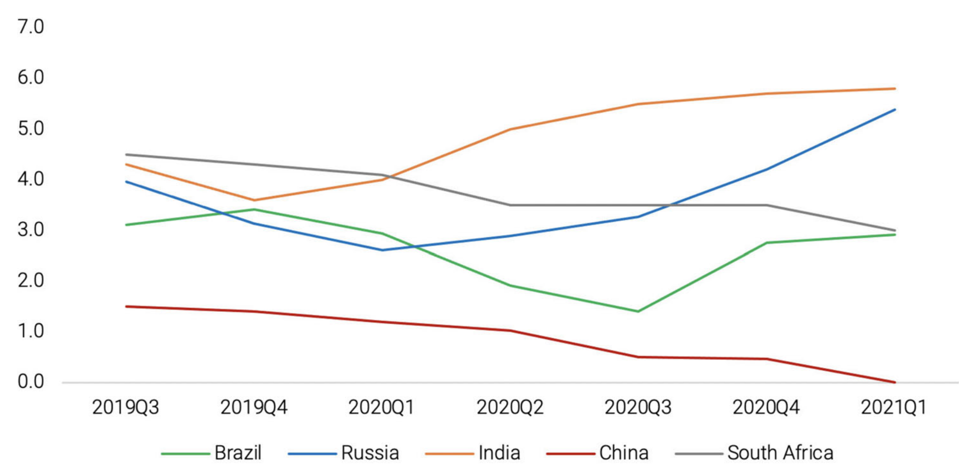
Table 8: Average Inflation Rates in BRICS

Countries	July 2019-March 2020 (Average)	April 2020-June 2020 (Average)	July 2020-June 2021 (Average)
Brazil	3.5	2.1	5.0
Russia	3.4	3.1	4.9
India	5.3	6.6	5.9
China	4.0	2.7	0.9
South Africa	4.1	2.4	3.5

Source: CEIC and CRA Research Group.

Brazil could contain its inflation within the upper tolerance band of 5.25 percent in 2020; however, from March to July 2021, its inflation rate moved beyond the upper tolerance band. Core inflation was also on higher trajectory for India, Russia and Brazil (Figure 6). For China and South Africa, inflation was not a cause for worry in 2020 and 2021 as it was well contained.

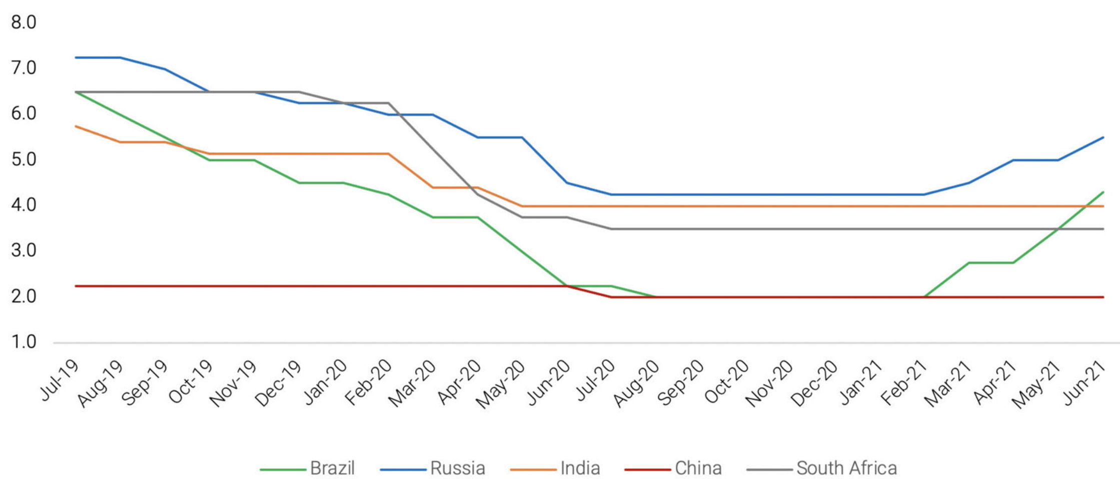
Figure 6: Core Inflation



Source: CRA Research Group.

Inflation in some of the BRICS countries has been close to or above official targets during March-June 2021, pushed up by the sustained rise in global food and commodity prices. The release of pent-up demand, elevated input prices and unfavourable base effects have further added pressures on the inflation rate. Factoring in these developments, Russia and Brazil have begun the reversal of the easing cycle of monetary policy in 2021 (Figure 7).

Figure 7: Movement of Policy Rates in BRICS



Source: CEIC and CRA Research Group.

The IMF WEO April 2021 predicts an average inflation of more than 4 percent for Brazil, Russia, India and South Africa and around 1 percent for China in 2021. Inflation is expected to remain at similar levels in 2022 (Table 9).

Table 9: Headline inflation Estimates

Country/Years	Apr-2021 WEO	
	2021	2022
Brazil	4.6	4.0
Russia	4.5	3.4
India	4.9	4.1
China	1.2	1.9
South Africa	4.3	4.5

Source: IMF WEO April 2021.

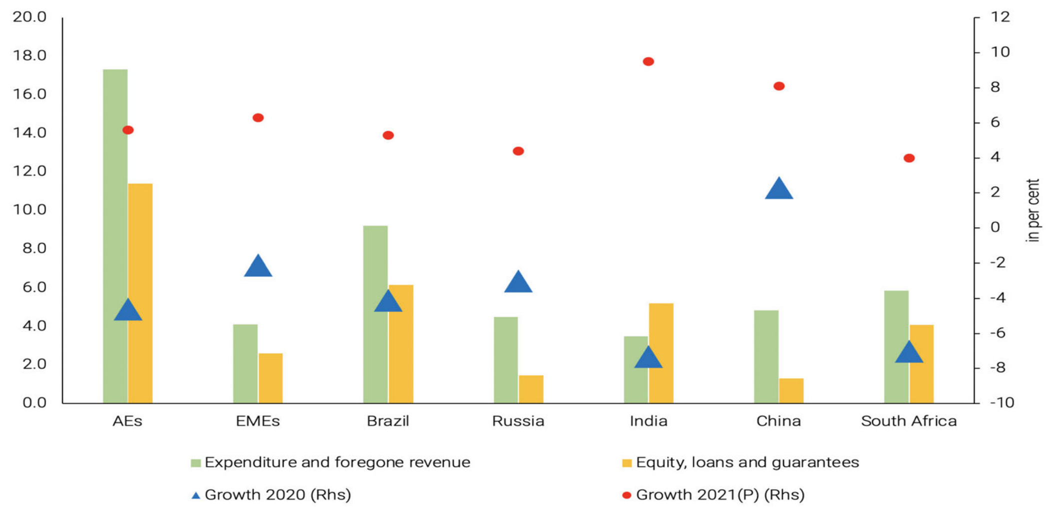
The IMF WEO July 2021 Update observed that the price pressures for the most parts of the world reflect unusual pandemic-related developments, transitory supply-demand mismatches and high food prices (particularly in EMEs). The IMF expects that inflation would return to its pre-pandemic ranges in most countries in 2022 once these disturbances work their way through prices, though uncertainty remains high. However, the BRICS economies need to maintain a strict vigil on the inflation front. Managing higher inflationary pressures would be a real challenge for the BRICS economies while striving to recover from the deep pandemic-induced economic contraction. An uptick in inflationary pressures could reduce the comfort of fiscal and monetary authorities in maintaining expansionary policies and would result in their reversal and implementation of contractionary policies. Not only domestic inflation, but the BRICS have to be wary of any build-up in inflationary pressures in AEs as well since this might lead to earlier-than-expected withdrawal of easy monetary policies in AEs. This can lead to reversal of capital flows from EMEs, including the BRICS, with its attendant disruptions in the exchange rate and related markets.

III. Fiscal: A Ballooning Fiscal Imbalance Tracing a Consolidation Path over the Medium-Term

As is well-documented, fiscal policy measures have been frontline warriors in the fight against the pandemic. Almost all countries across the globe launched instantaneous fiscal defense against COVID-19 and the BRICS were no exception. Major fiscal measures implemented by the BRICS economies to increase public investment in response to the pandemic were: expedited expenditure on health and epidemic control, transfers to vulnerable sectors, ramping up social security benefits, temporary relaxations of fiscal responsibility laws, tax relief and deferments, foregone revenues, duty reductions or waivers on medical equipment and supplies, concessional loans and transfers to sub-national governments, government-backed credit guarantees, targeted support schemes for SMEs and systemic sectors, among others. Though timely and ongoing fiscal support has helped avert severe economic contractions and arrested unemployment losses, it has translated into larger fiscal deficits.

Fiscal support during the crisis was provided in the form of: i) above-the-line measures, wherein increases in government expenditure and/or reduction in government revenues influenced economic activity through fiscal multipliers; ii) below-the-line support, including *inter alia* public-sector loans and equity injections; and iii) through contingent liabilities, including *inter alia* government guarantees. Using data from the IMF, we analyse the extent of such fiscal support announced and implemented in response to COVID and the expected recovery going forward (Figure 8).

Figure 8: Discretionary fiscal response to COVID (as percent of 2020 GDP)



Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, IMF, July 2021.

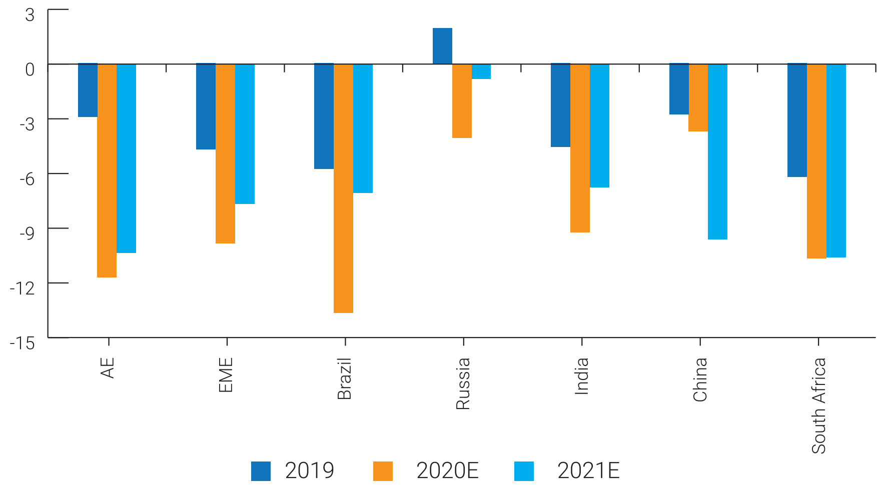
The IMF's data on country fiscal measures in response to the COVID-19 pandemic suggests that Brazil's response has been the largest of the responses of most EMEs, including the other BRICS countries. South Africa and India have also implemented sizeable expansionary fiscal responses. Charting the expected growth recovery for 2021, India's recovery is projected to be higher than other BRICS nations.

A stable and sustainable fiscal position is the key to implementing countercyclical policies in times of recession as witnessed during the GFC and, more recently, the COVID-19 outbreak. During 2020, fiscal policy was eased across the board which led to a ballooning of deficit from 4.7 percent in 2019 to 9.8 percent in 2020 for EMEs[5]. Fiscal balances in 2020 also showed a marked rise in deficits for the BRICS economies, in line with rises in AEs and EMEs as a group (Figure 9). As evident from the data, fiscal deficits more than doubled for Brazil and India from 2019 levels. The deterioration in fiscal balance was rather marked for Russia, as it moved from a fiscal surplus of 1.94 percent of GDP in 2019 to a fiscal deficit of 4.02 percent in 2020. South Africa's deficit for 2020-21 turned out to be 10.7 percent but was less than the 14.6 percent deficit projected during October 2020, reflecting the better-than-expected revenues amid a bounce-back in mining commodity prices and a stronger-than-expected recovery in domestic demand.

Brazil's creation of the Emergency Aid, a cash transfer program for low income families, contributed significantly to increasing its fiscal deficit to the level of 13.6 percent in 2020, up from (-) 5.79 percent in 2019, the highest among the

5. Fiscal Monitor, IMF, April 2021.

Figure 9: Fiscal balance (as percent of GDP)



Source: IMF Fiscal monitor, CRA research group.

BRICS nations. According to data from the National Treasury, this program alone accounted for BRL 293.1 billion out of total pandemic-related expenses in 2020, BRL 524.0 billion. Lower tax realisation, higher revenue expenditure primarily on account of on-budgeting of subsidies and falling short of the disinvestment target contributed to deepening the fiscal deficit for India. The revised estimates placed the gross fiscal deficit at 9.3 percent of GDP in 2020-21, up from (-) 4.6 percent in 2019-20[6]. China's fiscal easing, by increasing the issuance of local government bonds and using special treasury bonds to fight the pandemic as well as support the economy increased the deficit to 3.7 percent in 2020, up from 2.8 percent a year ago, the fiscal deterioration being modest compared to its peers. Decline in tax income on account of reduction in taxes and fees introduced last year to hedge the COVID-19 risk dented the Chinese government revenues. Russia's fiscal position became negative in 2020 at (-) 4.02 percent of GDP, driven by high non-pension social benefits, higher health expenditure and regional and industry support on the expenditure side but was partially offset by one-off proceeds from the sale of Sberbank equity transaction which was approved before the pandemic.

Drawing a parallel with fiscal stimulus extended during the GFC, Brazil's primary consolidated public-sector deficit reached 9.4 percent of GDP in 2020, significantly higher than in recent years, while during the GFC the Brazilian government had announced the reduction of the primary surplus target from 4.3 percent to 2.5 percent of GDP for 2009[7]. However, despite the significant deficit in 2020, the primary deficit of the Central Government performed better than predicted throughout 2020, due to higher revenues and lower

6. As per Office of Controller General of Accounts (CGA).

7. Source: *http://repositorio.ipea.gov.br/bitstream/11058/1690/1/td_1602.pdf*

expenditures. Regarding the fiscal path going forward, implementation of the ceiling for government expenses and approval of social security reform has contributed to the credibility of the fiscal adjustment process in addition to bringing down the neutral real interest rate to 3 percent per annum. Therefore, the continuation of the process of structural reforms – either by means of its impact on the primary deficit, or the maintenance of neutral interest rates at low level – is still essential for fiscal sustainability and the sustained growth of the Brazilian economy.

Russia experienced a sharp turnaround in its budget balance, which fell from +4.5 per cent in 2008 to -5.9 per cent in 2009[8], after being hit by the GFC. Major policy initiatives to deal with the GFC fallout included gradual devaluation of currency and sizeable fiscal support. More recently, in response to the COVID-19 pandemic, Russia temporarily suspended the use of its fiscal rule to conduct countercyclical policy. The government increased expenditures, primarily on procurement of medical goods and services and social security. Public revenues decreased, especially oil and gas revenues, due to fall in prices and demand. In addition, measures were also taken aimed at household income and employment support, which helped to contain the decline in consumption and economic activity that contributed to the shift in fiscal balance from surplus to deficit mode. The government intends to return to strict adherence to the fiscal rule from 2022. Throughout 2021, as a transition period, authorities intend to maintain relatively loose fiscal policy. Public spending is expected to remain elevated due to the increased structural non-oil and gas primary balance and additional use of the oil and gas revenues.

In India, fiscal stimulus to the tune of 3.5 percent of GDP was announced to cushion the economy from the GFC in 2008. This led to a jump in fiscal deficit to 6 percent in 2008-09, and 6.4 percent in 2009-10, from the level of just 2.7 percent in 2007-08. Following the COVID-19 outbreak and the subsequent implementation of fiscal measures, India is projected to record a fiscal deficit of 9.3 percent for 2020-21, up from 4.6 percent recorded last year[9]. Going forward, India will continue to focus on stimulating medium-term growth potential through higher capital expenditure and various reforms, while exploring ways to ease funding constraint and providing counter-cyclical support for growth revival. Funding budgeted expenditure by increasing the buoyancy of tax revenue through improved compliance, and by increasing receipts from monetisation of assets, including public sector enterprises and land as well as

8. Based on data from World Economic outlook , IMF.

9. As per the Controller General of Accounts.

strategic disinvestment are important steps towards fiscal discipline[10].

China increased government expenditure, most of which was used in infrastructure construction, during the 2009 crisis. The fiscal deficit-to-GDP ratio increased from 0.11 percent in 2008 to 2.73 percent in 2009. Faced by the COVID-19 crisis, China also increased government expenditure, especially on health, and cut taxes for SMEs temporarily, along with setting a mechanism that allows county governments to use central government fiscal transfer funds to increase the efficiency of fund use. Going forward, the Chinese government will continue to provide appropriate fiscal support to the still fragile economic recovery. However, it plans for orderly exit from some support policies such as tax reduction, as the recovery gains momentum. It will also continue to cut unnecessary government expenditure to economise on budgetary resources. The target of fiscal deficit-to-GDP ratio for 2021 is 3.2 percent, 0.5 percentage points lower than 2020.

Since the GFC, South Africa has pursued countercyclical fiscal policy with growing budget deficits and increased debt levels in expectation that growth in real economic activity and concomitant higher tax receipts would stabilise debt. This set the scene going into COVID-19, as South Africa responded to this pandemic with a specific fiscal support package of both revenue and expenditure measures as well as loan guarantees, of about 10 percent of GDP, comprising both expenditure reprioritisation and borrowing. Going forward, in the interest of fiscal consolidation and sustainability, a further reduction in expenditure relative to GDP is expected over the medium term.

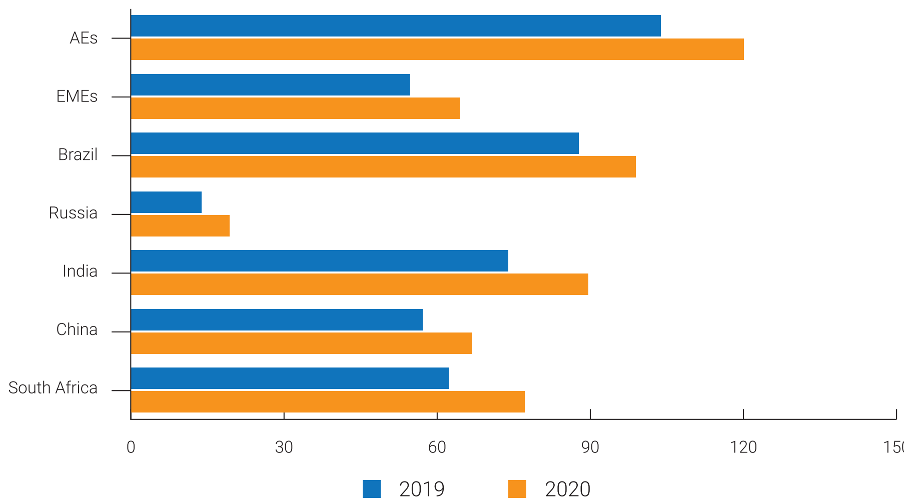
Rise in the BRICS' public spending along with the sharp output contraction post-pandemic has also fuelled public debt ratios (Figure 10). Average public debt as a percent of GDP for the BRICS stood at 70.35 percent for 2020, up from 58.9 percent in 2019, an increase which is substantially higher than the jump witnessed during the GFC[11]. The debt burden for Brazil increased in tandem with the sharp rise in its public expenditure to around 99 percent of GDP for 2020. Along similar lines, the government debt position in South Africa has also worsened, increasing from around 62 percent of GDP in 2019, to 77 percent of GDP in 2020, due to structural fiscal deficits in previous years and the pandemic spread. India also witnessed the ratcheting up of debt to 89.6 percent of GDP in 2020, up from 73.9 percent in the previous year, fuelling concerns about debt sustainability and fiscal consolidation in the future. Public debt-to-GDP ratio for China stood at 66.8 percent, up from

10. Union Budget 2021-22: An Assessment, RBI Bulletin April 2021.

11. Based on Fiscal Monitor database, IMF.

57.1 percent in 2019. The public debt situation in China did not worsen much on account of a bounce back in economic activity and the modest size of fiscal stimulus. However, local government indebtedness rose as a result of off-balance sheet borrowing and easy financing conditions. China's credit to the non-financial sector, which rose sharply post the GFC, led the Chinese government to adopt a deleveraging strategy in 2016, which was halted by the pandemic. Credit to the non-financial sector stood at 270.1 percent in Q4: 2020, up from 246.5 percent a year earlier, before falling to 267.8 percent in Q1: 2021[12]. A string of defaults in late 2020 by Chinese state-owned firms also underscored the need to reduce debt, which has now been highlighted as one of the five major goals of the government for 2021. Russia has been on the other end of the spectrum where, despite a jump in debt-to-GDP ratio to 19.3 percent in 2020 from 13.8 percent a year ago, the level of government debt is one of the lowest globally. Being a commodity exporter, high oil prices post-2000 have played a major part in reining in public debt along with conservative economic management.

Figure 10: Public debt (as percent of GDP)



Source: Fiscal Monitor database, IMF.

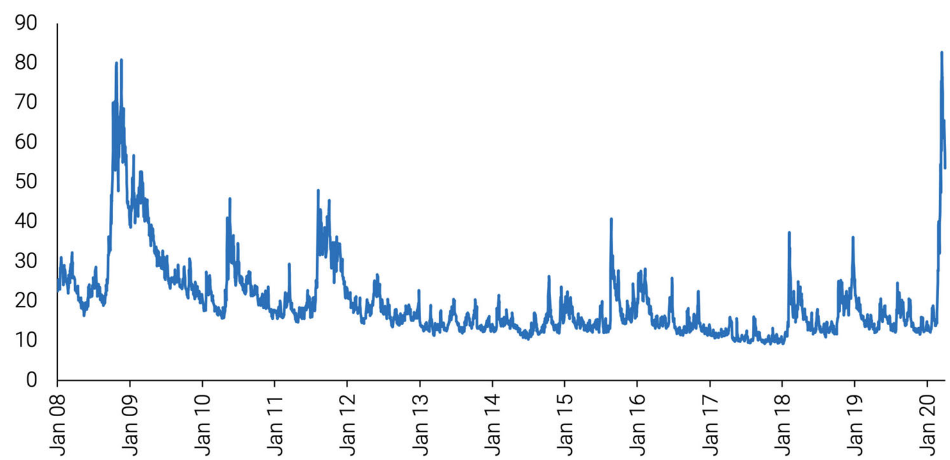
A natural corollary to the issue of increasing strain on public finances is the question of long-term debt sustainability, a key concern complicating fiscal dynamics today for emerging markets including the BRICS. Going forward, debt overhang could hinder fiscal adjustment, exacerbate fiscal risks, and raise risk-premia thereby perpetuating a vicious cycle of increasing rates, further deteriorating growth outlook.

12. As per the macro leverage ratio database, National Institution for Finance and Development, China.

IV. Financial Markets: A Strong Rebound from the Lows

Global financial markets experienced an overwhelming turbulence on the advent of the pandemic in early 2020. High uncertainty regarding the evolution of the disease compounded market volatility. This level of volatility was last seen during the GFC, as demonstrated by the VIX index (Figure 11). The VIX, which is generally interpreted as a crowd-sourced estimate for the degree to which the market is uncertain about the future, closed at 82.69, on March 16, 2020. Since then, volatility has ebbed on account of expansionary policies, especially by AEs, and worldwide inoculation drives.

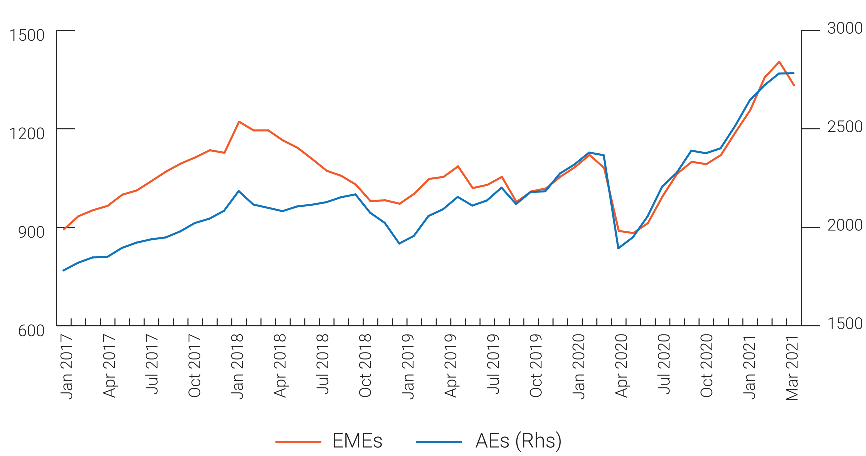
Figure 11: VIX Index



Source: Bloomberg.

Equity markets fell significantly in February 2020 as investors flocked to safe haven assets. Both the MSCI indices for AEs and EMEs declined contemporaneously post February 2020, and only started picking up after April

Figure 12: MSCI indices.

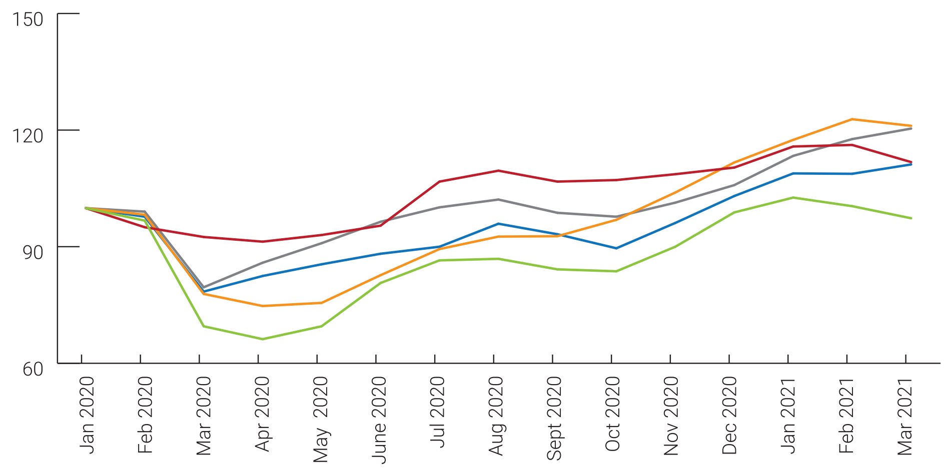


Source: Bloomberg.

2020, presumably on account of the global policy response. Subsequently, both indices have recovered the value lost on account of the pandemic and are at higher levels than those seen in the pre-pandemic period (Figure 12). This exuberance played out till earlier this year, which was in stark contrast to the abysmal fall and sluggish recovery of real sector economic fundamentals in the post-COVID era. Post March 2021, economic data have gained strength with global reopening, vaccine rollouts and enormous fiscal support.

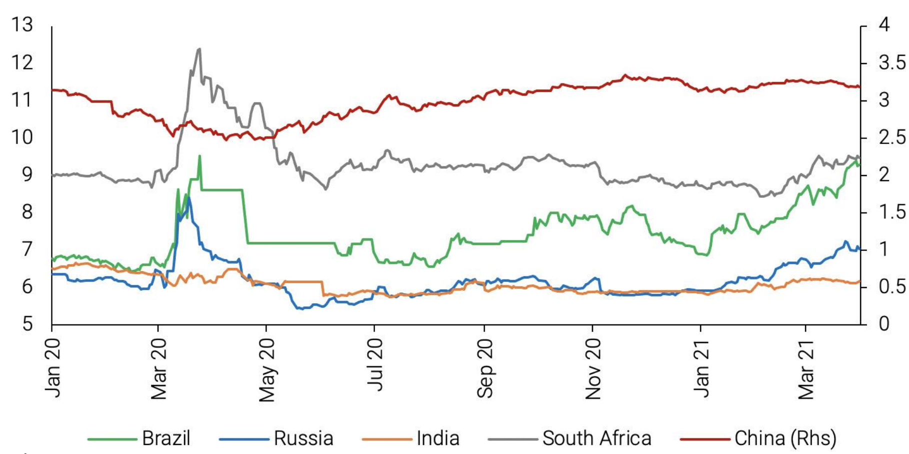
The BRICS countries' stock indices have rebounded from the lows experienced in Q1: 2020, *albeit* with many ups and downs (Figure 13). This recovery in the BRICS stock markets have followed similar trajectories, with recovery for India being 62 percent, followed by South Africa, Brazil, Russia and China at 51 percent, 47 percent, 41 percent and 22 percent, respectively[13]. This has been driven by markets awash in ample liquidity, aided by supportive policies

Figure 13: Stock market trends (January 2020=100)



Source: Bloomberg.

Figure 14: 10 year bond yields(in percent)



Source: Bloomberg.

13. Recovery is calculated as the increase in monthly average stock market indices from respective troughs for each country, which is March 2020 for Brazil, China and India and April 2020 for Russia and South Africa, till March 2021. The indices taken for the calculation are BSE Sensex for India, Ibovespa for Brazil, Top40 for South Africa, MOEX for Russia and Shanghai Composite Index for China.

of governments and central banks, broad macroeconomic recovery, increase in retail investor participation and a low interest rate environment in AEs. Going forward, key downside risks could be market corrections which will heavily depend on the course of economic development, fiscal and monetary policies, the evolving inflation dynamics in AEs and the subsequent waves of the COVID-19 infection which might be resistant to existing vaccines.

On the debt front, bond yields which spiked for the relatively 'risky' emerging market debt last year, have trended down, following the initial shock, for Brazil, Russia, India and South Africa (Figure 14). A key aberration among the BRICS has been the long-term onshore Chinese bond market where yields have been climbing after April 2020. One key reason for this has been the quick economic turnaround that China witnessed, prompting rotation out of bonds into equities. China's 'measured' response to the pandemic has also contributed to this. The rising yields are also due to the lower correlation of onshore Chinese markets with global aggregate and developed bond markets, making them a good diversification bet for global investors.

V. External Sector: Building Resilience Amidst Uncertainties

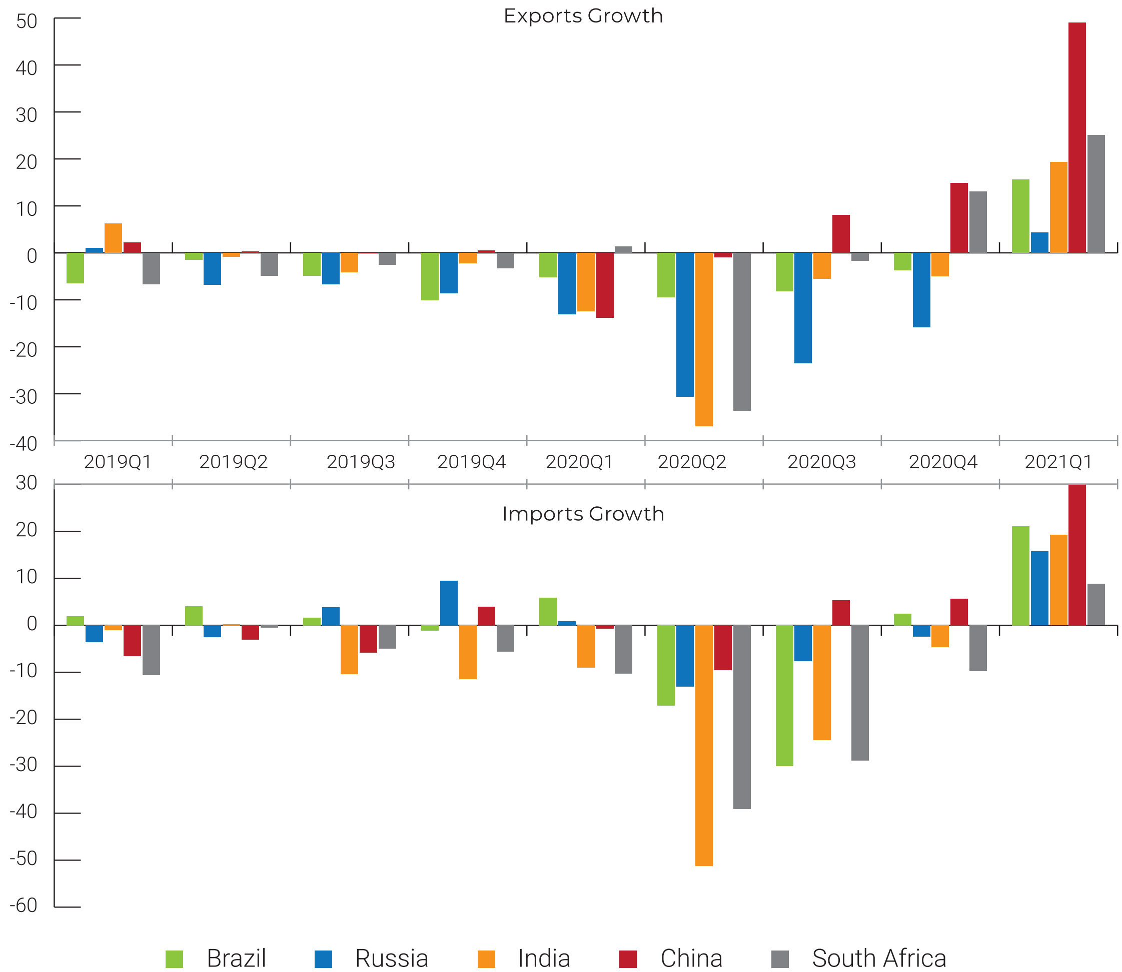
As the pandemic ravaged several major advanced and emerging economies in H1: 2020, the external sector – both real and financial – took a hit in the BRICS nations. However, broadly speaking, the external sector recovered well from the initial volatility and displayed encouraging strength during 2020 in most countries.

Trade and Current Account

Total trade volumes in H1: 2020 for all the BRICS nations put together was 11 percent lower than the pre-pandemic (H1: 2019) values. Even as the BRICS continued to battle the pandemic, the latter half of 2020 saw significant recovery in total trade, with H2: 2020 total trade volume registering an increase of 1.8 percent compared to H2: 2019. In fact, China witnessed higher total trade in H2: 2020 (by 8.8 percent) than in H2: 2019. This recovery is corroborated by data on trade value growth rates (Figure 15). Imports faced a major setback for the BRICS during Q3: 2020, when compared to the corresponding quarter of the previous year but has shown strong recovery in Q4: 2020 and Q1: 2021, especially for China, Brazil, India and South Africa. WTO forecasts regarding trade recovery also bode well for the BRICS, with global trade expected to grow at 8 percent in 2021, after having declined by (-) 5.3 percent in 2020[14].

14. Trade Statistics and Outlook, WTO. March 31, 2021. *https://www.wto.org/english/news_e/pres21_e/pr876_e.pdf*

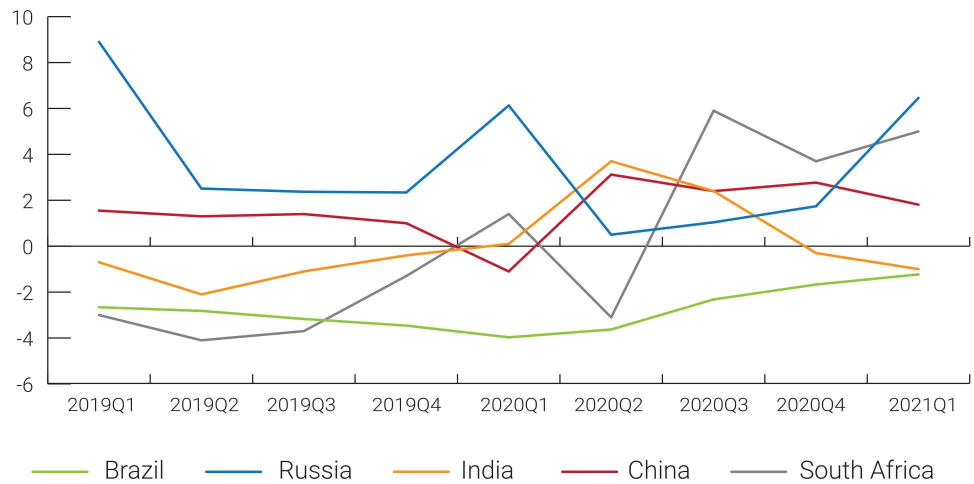
Figure 15: Growth Rates of Exports and Imports since Q3 2019 (y-o-y)



Source: CRA Research Group.

In the early stages of the pandemic, trends in current account balances of the BRICS displayed some departure from the past, especially for China, which recorded a deficit in Q1: 2020, while surplus was observed in traditionally deficit countries such as India and South Africa. The current account trends largely reverted to their pre-pandemic state by the end of 2020 barring South Africa (Figure 16). Russia's current account balance, which fell to (-) 0.5 percent in Q2: 2020, has recouped its value and registered a 6.46 percent surplus in Q1: 2021. Similarly, China's current account went into negative territory reaching (-) 1.1 percent in Q1: 2020 but improved thereafter to 2.8 percent by Q4: 2020. Brazil's current account balances, as a proportion of GDP, has continued to improve during the pandemic, increasing from (-) 3.63 percent in Q2:2020 to (-) 1.23 percent in Q1: 2021. India, which typically runs current account deficits, showed a surplus of 3.7 percent in Q2: 2020, which gradually reduced to (-) 1.0 percent by Q1: 2021 as international trade recovered. South Africa's current account position, which was negative in Q2: 2020, has reached 5.0 percent in Q1: 2021, after recording a high of 5.9 percent in Q3: 2020.

Figure 16: Quarterly Current Account Balances in 2019 and 2020 (Percent of GDP)



Source: CRA Research Group.

Financial and Capital Account

Capital markets in EMEs were severely affected at the start of the pandemic due to large-scale capital outflows amidst uncertainties regarding the virus and its effects. However, by the end of 2020, foreign portfolio investment (FPI) had returned to the BRICS economies, with values surpassing pre-pandemic levels in some cases (Table 10). China witnessed large portfolio inflows in

Table 10: Net Foreign Portfolio Investments (in USD billions)

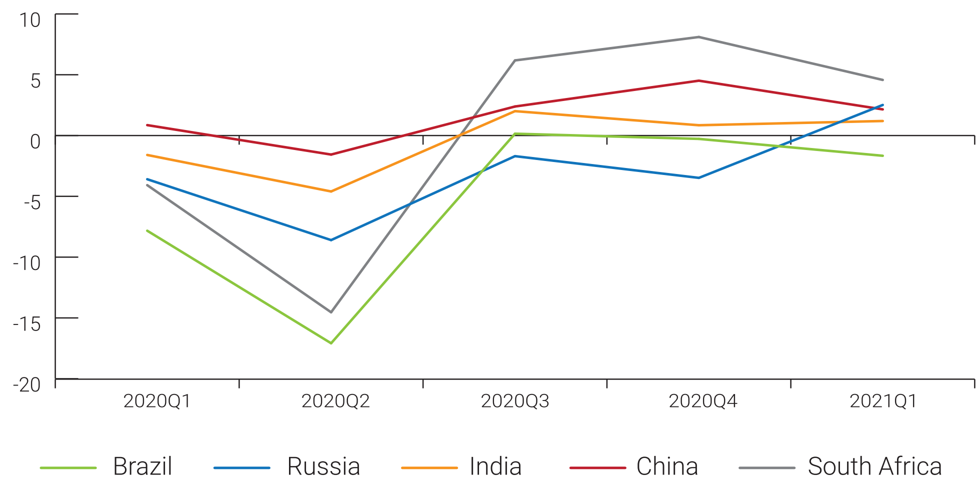
	Q1: 2019	Q2: 2019	Q3: 2019	Q4: 2019	Q1: 2020	Q2: 2020	Q3: 2020	Q4: 2020	Q1: 2021
Brazil	6.43	-7.55	-10.25	-7.85	-24.28	-7.06	-2.01	19.85	1.96
Russia	6.71	8.40	-2.93	0.50	-7.03	-15.87	-3.97	1.58	-12.78
India	11.5	5.2	2.0	8.1	-14.7	1.1	7.7	21.7	8.2
China	19.47	3.58	20.00	14.90	-53.20	42.40	43.90	54.20	3.5
South Africa	1.0	1.9	4.7	1.3	-0.7	-0.6	-4.6	-0.8	-3.1

Note: Net portfolio investments in this table reflects liabilities less of assets.
Source: CRA Research Group.

H2: 2020 amounting to USD 98.1 billion which was USD 63.2 billion higher than H2: 2019. Brazil and India, too, witnessed large FPI inflows in Q4: 2020 that far exceeded the previous year's values. Russia continued to remain a net lender in global portfolio markets with net outflows amounting to USD 12.78 billion in Q1: 2021.

These fluctuations in capital flows had concomitant effects on exchange rates, with all the BRICS currencies depreciating in H1: 2020. The BRICS currencies which experienced depreciations at the onset of pandemic recovered well in the second half of the year. The Indian Rupee, Chinese

Figure 17: Changes in nominal exchange rate (LCU/USD) q-o-q (percent)



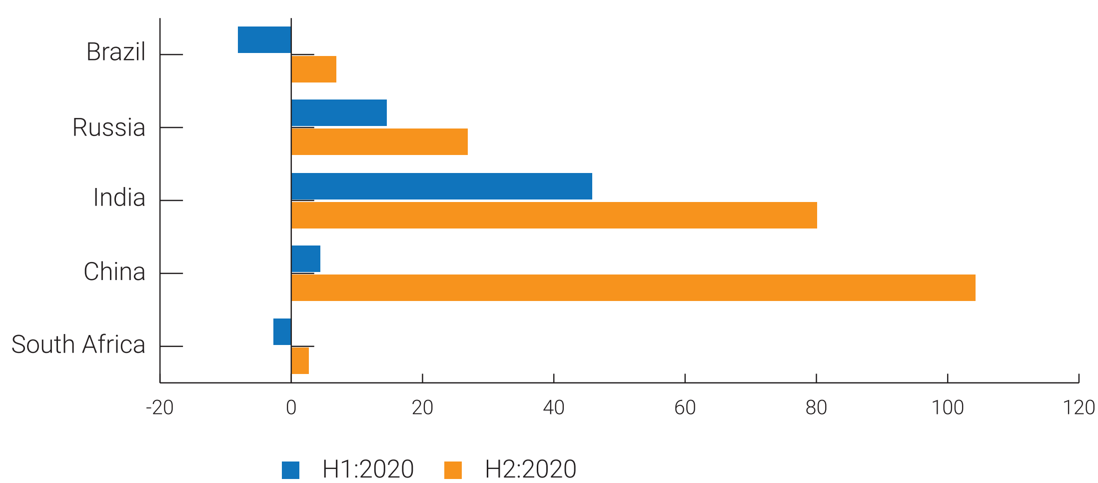
Source: CRA Research Group.

Yuan, and South African Rand recorded q-o-q currency appreciation which continued in Q1: 2021 as well, with Russian ruble also appreciating in 2021 (Figure 17). This recovery may have been driven largely by returning portfolio flows. Going forward, it remains to be seen if the rising bond yields in AEs, unequal pace of vaccination and other pandemic-related uncertainties place renewed pressure on the BRICS currencies.

Reserves and International Investment Position

In times of extreme uncertainty, as induced by the pandemic, a country's reserves position is an important metric to gauge macro-financial stability. The BRICS economies displayed a resilient reserves position during the pandemic, particularly in the second half of 2020. China and India witnessed

Figure 18: Changes in International Reserves in USD billion

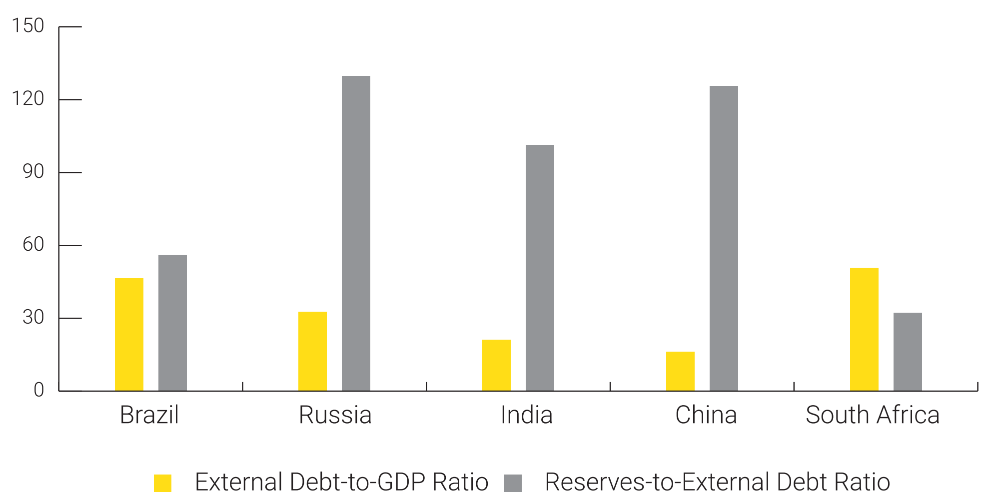


Source: CRA Research Group.

a massive increase in their reserves, to the tune of USD 104 billion and USD 80 billion, respectively (Figure 18). This change in reserves also provided countries with greater import cover. For instance, in Q4: 2020, India reported reserves cover of imports worth 18.6 months as against 11.3 months in Q4: 2019. Similar patterns were also observed in Brazil, Russia and, to some extent, in South Africa.

While reserves position, by itself, is an important measure of external sector stability, evaluating it in the context of external debt is also vital. Figure 19 shows that in Q3: 2020, even as the pandemic continued, the BRICS nations' external sector was fairly stable, with strong reserves to external debt position. Although the ratio of external debt to GDP is a slow-moving variable, significant changes have been observed in some BRICS countries during the pandemic. In Brazil, the ratio of external debt to GDP has increased from 36 percent in Q4: 2019 to 44.27 percent in Q4: 2020. This has been accompanied by a slight increase in the ratio of reserves to external debt ratio from 52.81 percent to 55.63 percent which bodes well for financial stability. Russia's external debt-to-GDP ratio increased from 29.1 percent of GDP in Q4: 2019 to 31.5 percent by Q4: 2020. Russia's reserves-to-external debt ratio also improved from 112.8 percent in Q4: 2019 to 129.7 percent in Q1: 2021. A similar trend was observed for India where external debt-to-GDP ratio increased from 20.0 percent of GDP in Q4: 2019 to 21.1 percent in Q1: 2021; while the reserves-to-external debt ratio increased significantly from 81.5 percent in Q4: 2019 to 101 percent in

Figure 19: External debt-to-GDP ratio and Reserves-to-External debt ratio in Q1:2021



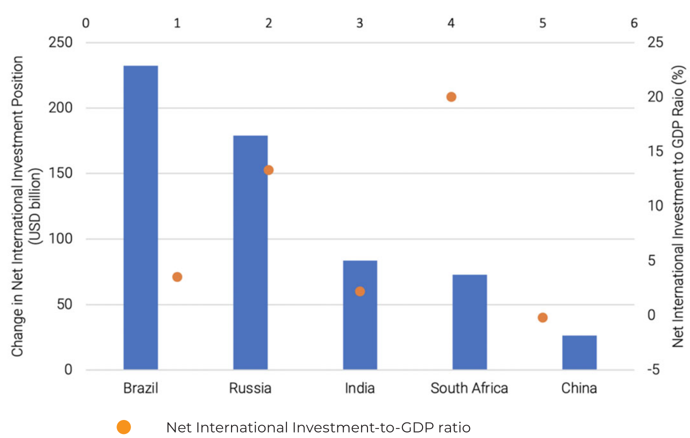
Note: Data for Brazil and China is for Q4: 2020. Data for External Debt-to-GDP ratio of Russia is for Q4:2020.

Source: CRA Research Group.

Q1: 2021. China saw an increase in external debt-to-GDP ratio from 14.32 percent in Q4:2019 to 16.3 percent in Q4: 2020. This was also accompanied by some lowering in its already healthy reserves-to-external debt ratio from 151.1 percent in Q4:2019 to 134 per cent in Q4: 2020. South Africa's external debt-to-GDP ratio, which was fairly high at 52.7 percent in Q4: 2019 increased to 54 percent in Q1:2021. However, its reserves-to-external debt position improved, increasing from 29.7 percent in Q4: 2019 to 32.2 percent in Q1: 2021 (Figure 19).

The net international investment position of the BRICS nations has clear patterns in that the net position of Brazil and India are negative, while those of the other economies are positive. China has the highest net international investment in absolute terms though, as a percentage of GDP, Russia ranked the highest in 2020. The net international investment position of the BRICS countries has improved between Q4:2019 and Q4:2020, both in absolute and percentage (of GDP) terms. Only for China has the net international investment as proportion of GDP fallen fractionally, by (-) 0.2 percent. This could be attributed to the fact that GDP growth (the denominator in this ratio) in China recorded positive values, even during the pandemic, when most nations were going through recessions. The highest absolute increase in international investment for this period was seen for Brazil where it went up by USD 232.4 billion (Figure 20).

Figure 20: Changes in Net International Investment Position and Net International Investment-to-GDP ratio (Rhs) (Q4: 2020 over Q4: 2019)[15]



Source: CRA Research Group.

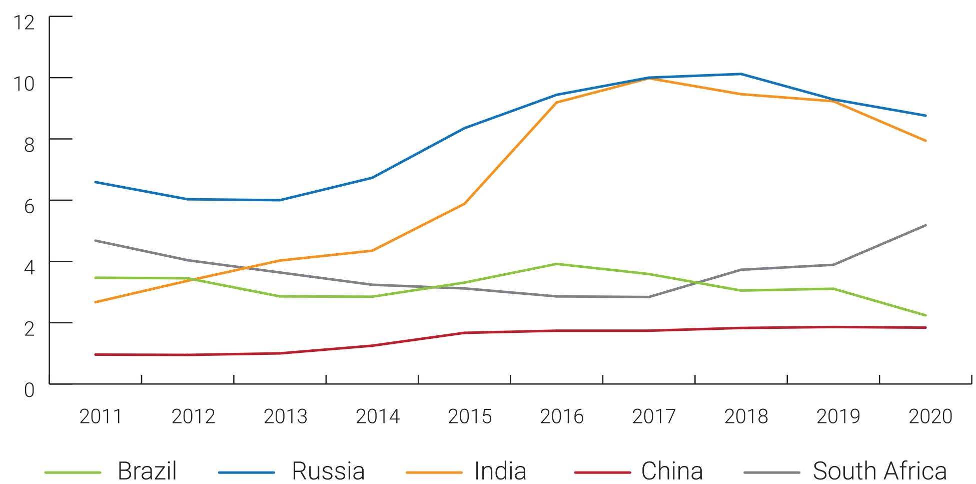
Broadly speaking, after some initial shocks, the external sector of the BRICS countries has recovered well and currently displays a healthy balance. Even though there may be potential risks of volatile international capital flows, their balance of payments position appears resilient based on the recovery of currencies, trends in external debt commitments, and reserves position.

15. For Russia, the changes are measured as Q3: 2020 over Q3: 2019.

VI. Financial Stability: Higher Risks Warrant a Close Vigil on the Sector

In the beginning phases of COVID-19 crisis, most of the countries undertook proactive policy measures with a view to supporting normal functioning of financial sector and mitigating immediate stress. The efforts are now being oriented towards supporting the recovery and preserving the solvency of businesses and households. Accommodative policies have helped in easing of liquidity strains so far, but riskier segments of credit markets and sectors hit hard by the pandemic may cause pressures in solvency of the lenders.

Figure 21: Non Performing Loans as Percentage of Gross Loans



Source: World Bank.

Banking sector profitability remained modest on account of reduced interest margins in very low interest rate environment, which may further affect the willingness and ability of the banks to lend in future. The non-performing loans as a percent of gross loans declined in 2020 against 2019 for all the BRICS countries with the exception of South Africa (Figure 21).

In Brazil, the growth of bank credit is consistent with economic fundamentals. Credit to sectors that are sensitive to the historically low interest rates and that are associated with the economic recovery are among the fastest growing. Credit to small and medium enterprises returned to its pre-pandemic pace, while larger companies gradually resumed their funding from capital markets. The system's provisions for expected loan losses are adequate. Financial institutions held high levels of provisions and, as a result, the coverage for problem assets remains close to its highest value. Problem assets have returned to their pre-pandemic levels. Capitalisation and liquidity of the National Financial System (SFN) were preserved above prudential requirement levels. As per the latest available data, solvency indicators of the SFN remain stable relative to end-2020. Liquidity levels remain adequate despite the usual seasonal reduction at the beginning of the year.

The Russian banks performed reasonably well during the pandemic owing to the swift response and support measures from the Bank of Russia and the government, but also due to previously accumulated capital buffers and the improved resilience of the Russian banks. Altogether, this allowed banks to continue providing credit to the economy during the pandemic. Earnings of the Russian banking sector in 2020 did not decline substantially. Actions taken by banks during the year to restructure debts of companies and households that faced financial difficulties, coupled with regulatory measures taken by the Bank of Russia, helped to keep the growth of non-performing loans under control. The Russian banking sector remained profitable, while the increase in credit costs has been manageable so far. The share of non-performing loans (NPLs) in the corporate book decreased from 11.0 percent at end-2019 to 9.3 percent at end-Q2: 2021 due to a denominator effect as corporate loan book has increased notably. In the segment of unsecured consumer loans, NPLs increased to 8.5 percent from 7.5 percent. Since mid-March 2020, the Russian banks have restructured more than 12 percent of their total loan portfolio. Conservatively, about 30 percent of restructured loans may become problematic and additional provisioning might be needed. Banks' profits (USD 22bn in 2020) and capital buffers (USD 78bn as of 1 January 2021) will be sufficient to cover the risks stemming from restructured loans. Moreover, the ultimate losses could be lower as the majority of restructured loans are secured. Further resilience of the banking sector will depend on servicing of restructured loans and the ability of companies from the most affected sectors to restore their financial health. A dramatic increase in housing prices (20-30 percent in certain regions) presents a concern for the banking sector stability in Russia. Also, the area of concern is the growing share of loans with high LTV. If these trends persist, the Bank of Russia will have to consider implementation of additional macroprudential policy measures. Another vulnerability for the Russian banking sector is the growing exposure to interest rate risks which were moderate during the period of soft monetary policy but can intensify during policy normalization.

Though the ferocity of the second wave of COVID-19 has dented economic activity in India, monetary, regulatory and fiscal policy measures have helped reduce the solvency risk of financial entities, stabilise markets, and maintain financial stability. Bank credit growth has remained tepid, impacted by lockdowns and associated restrictions. On the other hand, deposit growth maintained its upward trajectory, with current account and savings account deposits leading the way, reflecting continued preference for precautionary savings. Scheduled commercial banks' (SCB) return on assets (RoA) and return on equity (RoE) maintained a positive uptrend through 2020-21 and their capital to risk-weighted assets ratio (CRAR) improved by 130 bps year-on-year to reach 16 percent in March 2021. The gross non-performing assets (GNPA) and net NPA (NNPA) ratios remained stable during the second half of 2020-21, amounting to 7.5 percent and 2.4 percent, respectively, in March 2021. The overall provisioning coverage ratio (PCR) increased from 66.2 percent in March 2020 to 68.9 percent in March 2021. Macro-stress tests for credit risk show that SCBs' GNPA ratio may increase from 7.5 percent in March 2021 to 9.8 percent by March 2022 under the baseline scenario and to 11.2 percent under a severe stress scenario. Stress tests also indicate that SCBs have sufficient capital, both at the aggregate and individual level, even in the severe stress scenario.

China's banking system, in general, looks resilient. Since the GFC, the capital level of China's banks has improved significantly. The overall capital adequacy ratio has increased from 8.4 percent in 2007 to 14.5 percent in Q1: 2021. Meanwhile, the NPL ratio stayed at a low level of 1.80 percent in Q1: 2021. However, due to factors like governance failure, since 2019, some small banks have suffered liquidity crisis. China's regulators have taken timely measures to resolve these banks. On account of regulators' tailored resolution strategy there has been no systemic crisis. China's regulators have improved the banking resolution framework and applied regulations on financial holding companies.

South Africa's banking system remained relatively resilient throughout the period of government lockdown restrictions imposed in response to the pandemic. Profitability in the sector, however, declined to decadal lows following reductions in the interest rate as well as higher credit losses. The sector received support during this period through the implementation of certain macroprudential measures designed to continue the supply of credit as well as to facilitate financial market functioning. However, non-performing loans have been increasing, specifically in the household sector, with the pandemic amplifying pre-existing vulnerabilities (such as high unemployment and high indebtedness levels). Following the implementation of the IFRS9 accounting standard in 2018, the sector had historically high levels of provisions and these levels have been broadly maintained to date. However, continued waves of infection present an ongoing risk to the broader financial sector, including the banking sector.

In a nutshell, the financial sector of the BRICS countries looks resilient. However, it is a constant challenge for the BRICS countries to preserve financial stability while maintaining accommodative policy stances to help facilitate credit availability and support the recovery. Prolonged economic weakness could trigger a wave of bankruptcies; banking balance sheets could be impaired; governments might be unable to continue providing support; and, in some circumstances, macroeconomic hysteresis may set in with substantial persistence of unemployment and the protracted effect of the COVID-19 shock on unemployment through business shutdowns, even after the economy has recovered. Though decisive monetary and fiscal policy actions, aimed at containing the fallout from the pandemic, have stabilized investor sentiment, exit from such policies remains largely uncertain. Unwinding too early could result in cliff effects leading to abrupt tightening in financial conditions, undoing all the good effects of the heavy lifting done till now, while delaying for too long could exacerbate future vulnerabilities and lead to mispricing of risks. A very prudent and calibrated approach is important in managing financial system in such a volatile environment. Therefore, the BRICS countries should keep a close vigil on the developments in the financial sector including the interconnectedness between various entities and other dynamic factors.

Chapter 3: Conclusion

The COVID-19 crisis has indiscriminately affected all countries. The BRICS countries were no exception and have also been seriously hit by the pandemic and are trying to recover from it. However, there is a significant heterogeneity among the BRICS countries in the duration and intensity of the pandemic. While China could largely contain the spread of the debilitating infection, other BRICS countries have witnessed multiple waves of infection. The COVID-19 crisis has led to significant economic losses and made the social fabric of the BRICS countries fragile by amplifying unemployment, poverty, gender disparity and migration risks.

There is convincing evidence of a recovery of the BRICS from the deep, pandemic-induced contraction in 2020. The recovery shows significant divergence amongst the BRICS countries. China has been able to control the infections effectively which has aided its quick recovery. While the pace of economic growth is gradually picking up in India and Brazil, Russia and South Africa are yet to return to their pre-pandemic levels of economic activity. Since the threat of COVID-19 remains unabated in the BRICS countries, it is difficult to estimate the robustness of this recovery.

Inflation pressures, though high in most of the BRICS since the outbreak of the pandemic, were largely contained in 2020. However, inflation, with the exception of China and South Africa, has been close to or above official targets over March-June 2021, pushed up by the sustained rise in global food and commodity prices. The release of pent-up demand, elevated input prices and unfavourable base effects may add further to the pressures on inflation. Factoring in these aspects, a few countries of the BRICS have begun the reversal of their easing cycle of monetary policy in 2021. WEO July 2021 Update has observed that inflation is expected to return to its pre-pandemic ranges in most countries in 2022 though uncertainty remains high.

The pandemic-induced fiscal support has seriously stressed the fiscal health of the governments in the BRICS. The increasing strain on public finances may have implications for long-term debt sustainability. The stock indices of the BRICS countries have rebounded from the lows experienced in H1: 2020 *albeit* with many ups and downs. This recovery in the BRICS stock markets was driven by ample liquidity, supportive policies of governments and central banks and a lower interest rate environment in developed markets.

Though the pandemic hit the external sector of the BRICS in H1: 2020, the sector recovered well from the initial volatility and exhibited encouraging strength during the final months of 2020. The BRICS economies displayed strong forex reserves positions during the pandemic, particularly in the second half of 2020, with a substantial accretion to the reserves in China and India. Even though there may be risks of volatile international capital flows, the BRICS countries' balance of payments positions appears to be resilient based on the strength of currencies, trends in external debt commitments and reserves position. The financial sector of the BRICS countries appears to be resilient, on the back of the supportive financial sector policies adopted since 2020.

Going forward, the pace and efficacy of vaccination is going to be the most important determinant of economic recovery. According to the WEO July 2021 Update, vaccine access has emerged as the principal fault line along which the global recovery splits into two blocs: those that can look forward to further normalisation of activity later this year (almost all AEs) and those that will still face resurgent infections and rising COVID-19 death tolls. It is of paramount importance that BRICS countries continue working to get their population fully vaccinated and keep an extreme vigil to contain the pandemic and to ensure robust economic recovery. Also, the BRICS economies could come under further pressure as the recent Delta virus variant has again restricted activities, affecting supply chains and reducing consumer confidence. If the growth momentum in the BRICS countries, especially China, slows down, global recovery could also see further headwinds to its growth momentum. Apart from the uncertainty from COVID-19, tightening of global financial conditions, and persistent economic and structural changes arising from the crisis are other factors engendering concern in the BRICS countries.

The BRICS countries should seize the opportunities that might emerge amid the crisis by planning for and working towards a bright post-pandemic future. They may consider taking measures to proactively address the pre-existing issues of their economies and engaging in further structural reforms with a view to improving productivity of various factors of production. Adequate focus must be given to infrastructure development, ease of doing business, skills development and employment generation in the package of reforms targeting the post-pandemic world.

Multilateral action has a vital role to play in diminishing divergences, strengthening global prospects and addressing future risks and challenges.

Over the years, the BRICS has established strong foundations of co-ordination and co-operation in the form of the New Development Bank (NDB) and the CRA. The NDB could provide substantial financial support to the BRICS countries during the COVID-19 pandemic. The cooperation amongst the BRICS countries needs to be bolstered in various sectors with a view to amplifying engagements and collaborations. The immediate priority is to take collective measures to ensure access to COVID-19 vaccines across the BRICS and the developing world.

The BRICS CRA has achieved a new milestone in 2021 by conducting the IMF-linked test run and initiating collaboration with the IMF. As the BRICS CRA is positioning itself as an effective pillar of the Global Financial Safety Net (GFSN), publishing an annual BRICS Economic Bulletin has gained further relevance. This Bulletin with the theme '*BRICS Experience of Resilience and Recovery*' has explored the evidence of resilience and recovery from the pandemic. It will help the BRICS countries to have an indicative assessment of the strength and weakness of the BRICS economies and take suitable policy measures to improve medium- and long-term prospects. The maiden collaborative study on BoP dynamics helped BRICS central banks to understand the various aspects and nuances of the BoP in the group during the COVID-19 pandemic vis-à-vis earlier crises.

The BRICS countries will continue their efforts to improve the operationalization of the CRA in coming years. Discussions on collaborations with the IMF, LIBOR replacement and other technical issues will be continued to cement the role of the CRA as an effective and reliable safety net mechanism.

Box 1: Key Fiscal and Monetary measures to respond to COVID-19

Fiscal Policy Response

On the fiscal policy front, the BRICS governments provided timely and large stimulus packages, largely focused towards two areas: (a) funding immediate health response to COVID-19 and strengthening of domestic health sectors; and (b) immediate direct financial support to the vulnerable households and businesses. Provision of unemployment insurance or employment maintenance schemes, waiving of social security contributions; discounted loans to affected sectors (particularly SMEs) and sectors producing essential/ medical goods, were among the most commonly adopted measures to address the extreme decline in demand and supply as well as towards protecting jobs. Key fiscal instruments employed by the BRICS governments were tax deferrals, concessionary and preferential loans, direct transfers to vulnerable groups, interest subsidies, subsidized mortgage payments, and emergency credit support.

Monetary Policy Response

Since the onset of the COVID-19 pandemic, BRICS central banks have largely held an accommodative monetary policy stance, setting their policy rate at historically low levels. This policy rate accomodation was combined with timely and effective actions to bolster liquidity in domestic and foreign currencies through various instruments including open markets operations.

To ensure support to the vulnerable businesses and maintain continuity in delivery of banking services, the BRICS central banks have undertaken several measures, *viz.,* various regulatory forbearance and relief measures, concessionary refinancing of loans, creation of swap lines, expansion of special credit lines, relief of capital requirements for banks, reduction of the interest on excess reserves and stable functioning of payment systems. These measures, in combination with increased flexibility by financial regulators, have helped to maintain the flow of credit and liquidity in the BRICS economies.

Brazil provided a total package of USD 105 billion (7.16 percent of GDP) including direct transfers, employment maintenance schemes, transfers to sub-national governments, emergency credit access and credit support to MSMEs. Key policy rate was lowered gradually from 4.5 percent in January 2020 to 2 percent per annum in August 2020, where it remained until March 2021. There were also two comprehensive support packages - liquidity provision of 17.5 percent of GDP and capital relief provision of 18.5 percent of GDP. Central Bank of Brazil has been tightening monetary policy in response to rising inflationary pressures and deterioration in balance of risks for inflation.

Russia is implementing fiscal measures of USD 89 billion (6.0 percent of GDP), with the planned figure for 2021 at USD 17 billion (1.1 percent of GDP). Government provided extra payments to support healthcare workers and families with children; raised unemployment and sick leave benefits; made permanent cuts in social contribution rate for MSMEs; supported most affected sectors and strategic enterprises through grants, concessionary loans and tax deferrals[1]. Key policy rate was lowered gradually from 6.25 percent to 4.25 percent in July 2020[2]. Other measures included introduction of new Special Refinancing Facility for SMEs and long-term repo auctions. Regulatory forbearance measures included lower risk weight add-ons on mortgages and unsecured consumer loans and permission not to increase loan loss provisions for affected borrowers and on restructured loans.

India provided a special economic package of INR 29.87 lakh crore (15.1 percent of GDP) in 2020 under AatmaNirbharBharat (ANB) to combat the impact of the COVID-19 pandemic,

1. Given the rapid recovery (the pre-crisis level of output was reached in Q2: 2021) and the need to maintain long-term fiscal stability, Russia plans the full return to the pre-COVID fiscal rule for public expenditures in 2022, while public borrowing is being normalized already in 2021 (primary structural deficit of 0.5 percent GDP).

2. Due to rising inflationary pressures, the Bank of Russia has started to hike the key policy rate since March 2021. As on 16 August 2021, it stood at 6.5 percent.

to revive economic growth and to bolster employment. Union Budget 2021-22 announced a number of measures to support broad-based and inclusive economic development including a 34.5 percent increase in capital expenditure and 137 percent increase in health expenditure. Government announced a relief package of INR 6.29 lakh crore (3.2 percent of FY 2020-21 GDP) in June 2021 to strengthen public health and provide impetus for growth and employment measures. The RBI has continued with an accommodative monetary policy stance since June 2019 and, post-pandemic, policy repo rate was reduced by 115 bps in two phases to 4.0 percent by May 2020; liquidity measures *inter alia* include Cash Reserve Ratio cut, Long-term and Targeted Long-term Repo Operations, and open market operations including G-sec Acquisition Programme.

China, in the face of the COVID-19 pandemic, pursued a proactive fiscal policy in 2020. According to IMF's Fiscal Monitor, 2021 April, China's General Government Overall Balance for 2020 was 11.4 percent of GDP. Support measures included, but not limited to, increased spending on epidemic prevention and control, relief in tax for small, medium and micro enterprises (SMMEs), individually owned business and enterprises in operational difficulties, accelerated disbursement of unemployment insurance and its extension to migrant workers, increased support and discount on small guaranteed loans. Reverse Repo Rates (RRR) and Medium-Term Lending Facility (MLF) rate were reduced, with targeted RRR cuts for SMEs. Liquidity injection into the banking system were done via open market operations. These policy measures helped China to register a positive growth rate of 2.3 percent in 2020.

South Africa's social and economic support package of R500 billion (10 percent of GDP) redirected fund towards health response to COVID-19, providing direct support to households and individuals for relief of hunger, social distress, assistance to companies in distress; and protecting jobs by supporting workers' wages. Repo rate was reduced between March and July 2020, amid decline in both short-term price pressures and longer-term inflation expectations, and thereafter remained unchanged at 3.5 percent per annum. Central bank's balance sheet used as an active policy tool to ease liquidity constraints in funding markets, including purchases of government bonds in secondary market to ensure continued liquidity and proper functioning of debt markets. Macroprudential measures implemented to provide banks with regulatory relief and guidance on how to manage the crisis from regulatory and accounting perspectives.

Source: BRICS Finance Ministers and Central Bank Governors, Statement on Global Economic Outlook and Responding to COVID-19 Crisis (Aug 2021).

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